Office of the Superintendent of Financial Institutions Canada

Bureau du surintendant des institutions financières Canada

Navigating Through Global Currents

OSFI ANNUAL REPORT 2007-2008

OSFI BSIF

Canada

OSFI at a Glance

- OSFI was established in 1987 to contribute to public confidence in the Canadian financial system. It is an independent agency of the Government of Canada and reports to the Minister of Finance.
- OSFI supervises and regulates over 450 banks and insurers, and some 1,350 federally registered private pension plans. As at March 31, 2008, these organizations managed a total of $3,823 billion of assets.
- The Office of the Chief Actuary, which is an independent unit within OSFI, provides actuarial services for the Canada Pension Plan, the Old Age Security program, the Canada Student Loans Program and other public sector pension and benefit plans.
- OSFI recovers all of its costs. OSFI is funded mainly through asset-based, premium-based or membership-based assessments on the financial services industry and a user-pay program for selected services. A small portion of OSFI's revenue is derived from the Government of Canada for actuarial services relating to various public sector pension and benefit plans.
- The International Advisory Group within OSFI assists selected emerging market economies in enhancing their supervisory system, through training programs or hands-on technical advice. Funding for OSFI's international assistance program is provided by the Canadian International Development Agency.
- OSFI employs some 470 people in offices located in Ottawa, Montréal, Toronto and Vancouver.

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Cat. No. IN1-2008 ISBN 978-1-100-10341-9

Navigating through global currents

OSFI's supervisory framework and regulatory regime are designed to ensure that Canada's federally regulated financial institutions are sound and prepared to weather unforeseen events. In 2007-2008, OSFI focused on helping Canada's financial sector navigate through the global financial market turmoil.

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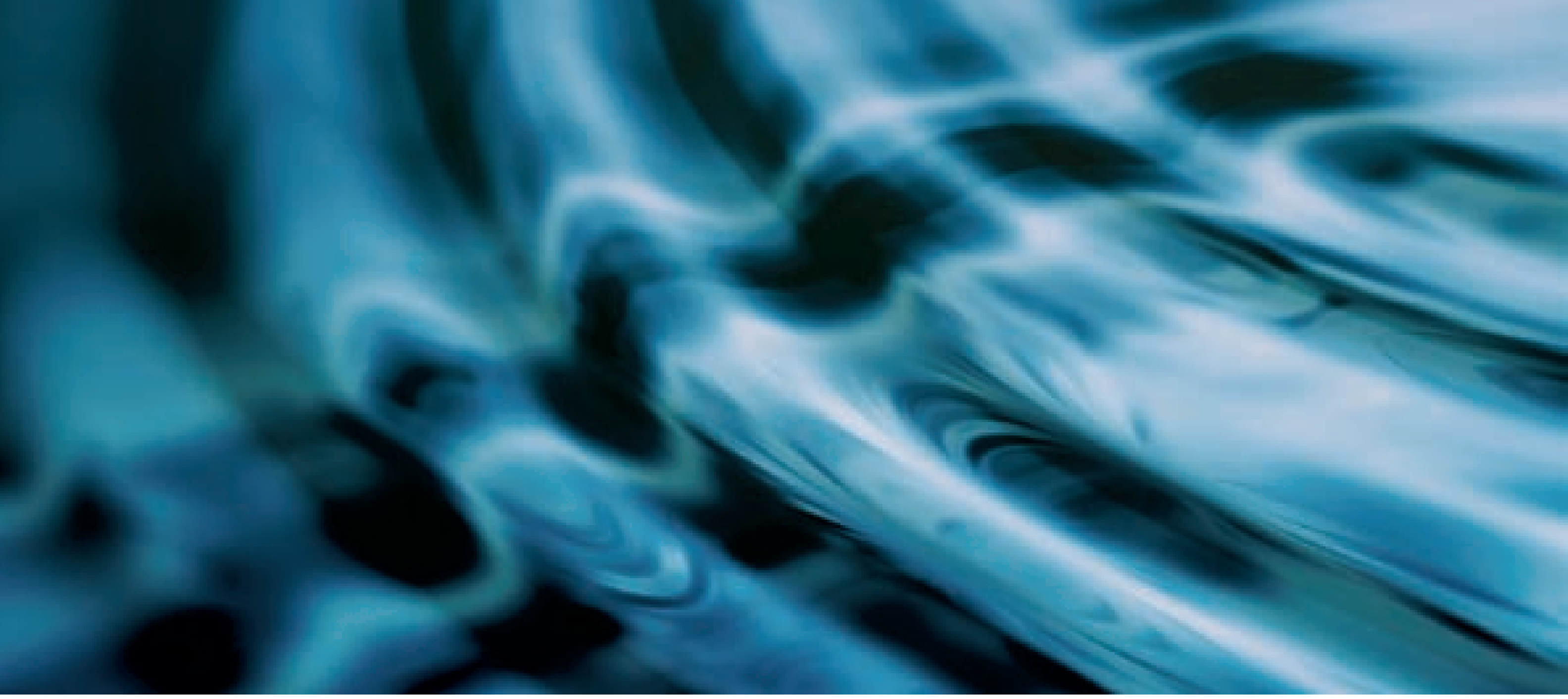


Superintendent's Message

Julie Dickson *Superintendent of Financial Institutions*

Financial institutions operate globally, and products and markets are increasingly complex. This makes the job of regulating far more challenging. The theme of this annual report – *Navigating through Global Currents* – reflects the importance OSFI and other regulators place on taking a domestic and global perspective in the financial services sector.

This past year was tumultuous, beginning with a downturn in the U.S. subprime mortgage market and quickly spreading to financial markets around the globe, which are inextricably linked. Capital and credit markets seized up, some large financial institutions in other countries were taken over, and around the world losses were very real.

Canada's banks entered this period very well capitalized, which has helped them weather the storm relatively well to date; however, there have been some losses at Canadian banks which, in some cases, were significant. As well there was a major problem in the Canadian non-bank asset-backed commercial paper (ABCP) market. The ABCP issue led to significant public discussion regarding liquidity lines to ABCP conduits and OSFI's role. We explained that we are responsible for assessing bank solvency, that OSFI capital rules apply to Canadian banks only (and not to other companies at the centre of the non-bank ABCP market or to the mainly foreign banks they dealt with), that our capital rules were prudent and necessary for bank solvency, and that securities commissions have a mandate to protect investors in ABCP securities.

The Financial Stability Forum – an initiative of the G7 – was asked to review the causes of the financial market turmoil and make recommendations to deal with the situation. The FSF released *Market and Institutional Resilience*, a report that contained over 60 recommendations on how central banks and regulatory agencies could strengthen the banking and financial system. I was a member of the working group that produced this report, and we immediately began to implement the recommendations in Canada.

The Basel Committee on Banking Supervision (BCBS) also announced steps to strengthen the resilience of the banking system and its ability to recover readily from shock. In 2007-2008, OSFI continued its active membership in the BCBS, where we are involved in the three main activity streams: the Accord Implementation Group, the Accounting Task Force and the Policy Development Group.

The revised Basel Capital Framework (Basel II) became effective for Canadian banks on November 1, 2007. It will play a key role in strengthening risk management practices at banks. The consensus view is that had Basel II been fully in place global market turmoil might have been less pronounced (because Basel II increased capital charges for complex products and required the use of stress tests to assess risks, for example). Nevertheless, efforts are now underway by the Basel Committee to update parts of Basel II for which capital was insufficient, based on knowledge gained as a result of the recent turmoil.

Change is constant and the financial landscape will continue to shift in ways that are not fully predictable at this time. That is why cushions are so important, and why OSFI focuses on capital, liquidity and stress testing at financial institutions. To ensure focus on risk, in the spring of 2007, OSFI also adopted a long-term business priority to enhance our ability to identify risks and their impact on financial institutions and pension plans. We will use that increased understanding to adjust our supervisory and regulatory expectations and prioritize our work.

The long-term priority is being implemented through a number of ongoing initiatives, which include:

- Creating an Emerging Risk Committee of specialists across all areas of OSFI;
- Increasing human resources by 10% in risk identification and resolution;
- Increasing surveillance of markets to which financial institutions are exposed, so as to better determine risks to financial institutions;
- Conducting more comparative reviews, such as benchmarking how banks manage liquidity risk, the rigour of their stress testing, the robustness of their valuation processes, as well as their securitization activities, and their commercial real estate activities.

Looking ahead, OSFI will continue to work to maintain its strong international reputation, as confirmed by an International Monetary Fund (IMF) Financial Sector Assessment Program (FSAP) Report released in February. A major achievement in 2007-2008, the FSAP report said Canada's "financial stability is underpinned by…strong prudential regulation and supervision." OSFI will also face the impact of a softening global economy, which will have an impact on the institutions and plans that OSFI oversees.

At the same time, the global financial market turmoil has led to some fundamental questions about the role of regulators and whether more can be done to reign in the excesses that have tended to appear in the global financial system from time to time. OSFI will be working closely with international bodies to stay on top of discussions on these issues. We are increasing risk assessment and supervisory resources by 10% and will be paying close attention to resource levels and skills. This will be especially important as we assess the impact of changing economic conditions on financial institutions and pension plans, digest results of the international work on global market turmoil, and consider IMF assessments, including on our implementation of Basel II (an assessment that began late in fiscal 2007-2008 and will continue into 2008-2009).

During the past year, the OSFI executive team welcomed Coleen Volk to the position of Assistant Superintendent, Corporate Services. Like many of our employees, Coleen brings to OSFI significant experience in both the public and private sectors where she held a range of senior roles.

OSFI strives to ensure a balance of industry and public sector experience, especially in the risk assessment and supervision functions. OSFI has established its job classification and salary structure in order to attract and retain the necessary technical skills and industry experience.

One of the results of our recruiting strategy is a low voluntary turnover rate. The most important is a staff whose professionalism and dedication form the cornerstone of OSFI's ability to deliver our mandate. I take this opportunity to acknowledge their contributions and thank them for their ongoing commitment and hard work.

Julie Di

Julie Dickson

Performance against Priorities 2007-2008

OSFI's role is to contribute to the safety and soundness of the Canadian financial system, while allowing federally regulated financial institutions and private pension plans to compete effectively and take reasonable risks. We navigate through global financial currents to balance competitiveness with prudence; international rules with Canadian market realities; and efficiency with thoroughness. This approach guided our performance during 2007-2008.

Last year's Annual Report listed seven priorities to achieve OSFI's strategic outcomes for 2007-2008. This section reports major accomplishments under each of the priorities. OSFI achieved its goals for the reporting year and continues to work on these multi-year priorities. More details are available in various chapters of the report.

Priority A

Ensure OSFI can respond adequately to shocks as a result of a crisis or a pandemic, and cyclicality in the industry.

STEPS TAKEN

- Conducted a table-top exercise with OSFI senior executives to test their capacity to execute their responsibilities and accountabilities while relocated to a simulated backup Emergency Command Centre.
- Focused on an actual shock that began with concerns over subprime mortages in the US. Communicated effectively with Financial Institutions Supervisory Commitee (FISC) partners and other regulators internationally.
- Completed resource analysis and planning, and budgeted for an increase of approximately 10 percent in supervisory resources in 2008-2009 to enable OSFI to address the growing risk profiles across the industries we regulate.
- Surveyed business resumption plans, including pandemic preparedness, of federally regulated financial institutions (FRFIs).

Priority B

Complete the review and approval, with a reasonably high degree of confidence, of applications that are submitted for approval under the Basel II Capital Accord, and review OSFI practices to align with Basel II requirements.

STEPS TAKEN

- Gave approval to various banks to operate under the Advanced Internal Ratings Based approach under Basel II.
- Assisted smaller deposit-taking institutions to transition successfully to the Standardized approach for credit risk.
- Revised the Capital Adequacy Requirements (CAR) Guidelines for banks, trust and loan companies on the implementation of the new Basel II capital framework, to incorporate a number of issues raised by the industry.
- Issued advisories to update the CAR Guidelines in response both to market developments in the use of tier 1 qualifying preferred shares and innovative instruments, and to accounting, legislative and other changes affecting the definition of capital and measurement of capital adequacy.

Priority C

Participate in Financial Stability Assessment Program (FSAP) Update and Financial Action Task Force (FATF) reviews and be in a position to deal with any feedback that results from the reviews.

STEPS TAKEN

FSAP

- Worked with the Bank of Canada and the major banks to undertake stress testing under a number of scenarios.
- Provided the International Monetary Fund (IMF) with detailed self-assessments regarding compliance with four recently revised core principles on Liquidity Risk, Operational Risk, Interest Rate Risk in the Banking Book, and Supervisory Techniques.
- The IMF's FSAP report concluded that "Canada's financial system is mature, sophisticated and well-managed. Financial stability is underpinned by sound macroeconomic policies and strong prudential regulation and supervision." The review found OSFI to be compliant with all four Core Principles of Supervision assessed and noted that the Canadian financial sector is strong and its major banks would be able to withstand sizeable shocks to the financial system.

FATF

- Provided input, with a number of other stakeholders, for the mutual evaluation questionnaire, which is a key input into the FATF's mutual evaluation report (MER).
- The FATF MER recognized OSFI's role in Canada's anti-money laundering / anti-terrorism financing (AML/ATF) regime as being effective, and noted that regulatory changes scheduled to take effect in December 2007 and June 2008 would address virtually all non-compliance issues identified in the report.
- Amended OSFI's AML/ATF assessment methodology to take into account the new legislative requirements.

Priority D

Prepare for implementation of International Financial Reporting Standards (IFRS) by considering changes to OSFI's prudential regime, including changes in accounting for insurance.

STEPS TAKEN

- Developed a detailed project plan and team to guide internal implementation efforts, help assess the effects moving to IFRS will have on FRFIs and identify the need for new or modified guidance from OSFI.
- Worked closely with the Canadian Institute of Chartered Accountants' Accounting Standards Board (AcSB) staff and participated in bilateral discussions with AcSB staff on issues related to the adoption of International Financial Reporting Standards.
- As part of the Accounting Task Force (ATF) of the Basel Committee on Banking Supervision, provided comment letters to the International Accounting Standards Board (IASB) on key discussion papers.
- Through participation on the International Association of Insurance Supervisors' (IAIS) Insurance Contracts Subcommittee, worked on a response to the IASB Discussion Paper on Insurance Contracts, as well as submitting an independent response.

Priority E

Minimum Continuing and Capital Surplus Requirements (MCCSR) – Develop and agree on a capital framework for life insurance companies, over a five-year period (beginning in 2007-2008).

STEPS TAKEN

- Worked with the life insurance industry through the MCCSR Advisory Committee (MAC) to develop and incorporate more advanced risk measurement techniques into the MCCSR.
- Through MAC, issued a paper outlining the vision for a new more risk-sensitive capital framework for life insurers.
- Developed, in conjunction with Assuris and the Autorité des marchés financiers, a draft framework for a New Standard Approach to Setting Capital Requirements.

Priority F

Enhance OSFI's ability to perform as required in an increasingly complex pensions environment.

STEPS TAKEN

- Focused effort to reduce a backlog in requests for approvals, which included refining internal approval processes and publishing additional approval instruction guides to the pension industry:
  - Cut the number of outstanding approvals by 25% overall.
  - Made a substantial 50% reduction in cases older than two years.
- Continued development of a new risk assessment framework for pension plans, to be followed by enhancements to the pension IT system to support efficient supervisory processes.

Priority G

Ensure OSFI has the human resources available to fulfil its mandate, through better long-range, integrated planning.

STEPS TAKEN

- Created a new supervisory team based in Ottawa to assist the Toronto-based Financial Institutions Group in managing the workload created by the growing risk profiles across OSFI's regulated industries, and funded through existing resources.
- Budgeted new positions for 2008-2009 to increase capacity and complement targeted technical skills in anticipation of emerging risks.
- Implemented a formal deployment program that encourages employees to further broaden their professional skills by experiencing different working environments within the organization.
- Compiled an inventory of industry experience among employees in Supervision as a planning aid. For example, this information will help identify where additional industry experience would be an asset.
- Completed a compensation survey that generally indicated OSFI's salary structure appropriately reflects salaries paid within the financial services industry.

Priorities for 2008-2009

OSFI has identified the following eight priorities to achieve our strategic outcomes for 2008-2009. More details can be found on OSFI's Web site in the *Report on Plans and Priorities 2008-2009 to 2010-2011*.

A. Improve OSFI's ability to identify, monitor and report on emerging risks to federally regulated financial institutions by increasing resources and enhancing processes.

B. Participate in international discussions about key issues arising from global market turmoil, and work with Financial Institutions Supervisory Committee (FISC) partners on similar issues in Canada.

C. Prepare for the move to International Financial Reporting Standards (IFRS) in 2011, by determining the implications for OSFI, assessing policy requirements and addressing data collection and reporting.

D. Adjust the current Minimum Continuing and Capital Surplus Requirements (MCCSR), by developing and agreeing on a capital framework for life insurance companies over the next four years.

E. Respond to suggestions or recommendations in the Financial Sector Assessment Program (FSAP) report and the Financial Action Task Force (FATF) report.

F. Complete the post-implementation phase of the Basel II Capital Accord, by monitoring Basel II systems and reviewing banks' capital adequacy assessment processes and relevant policies.

G. Ensure OSFI has the human resources available to fulfil its mandate, through better long-range, integrated planning.

H. Enhance OSFI's ability to perform as required in an increasingly complex pensions environment by enhancing OSFI's pension systems and processes.

The priorities identified for 2008-2009 flow from the following six ongoing responsibilities related to OSFI program activities:

Federally Regulated Financial Institutions

1. Accurate risk assessments of financial institutions and timely, effective intervention and feedback.
2. A balanced, relevant regulatory framework of guidance and rules that meets or exceeds international minimums.
3. A prudentially effective, balanced and responsive approvals process.

Federally Regulated Private Pension Plans

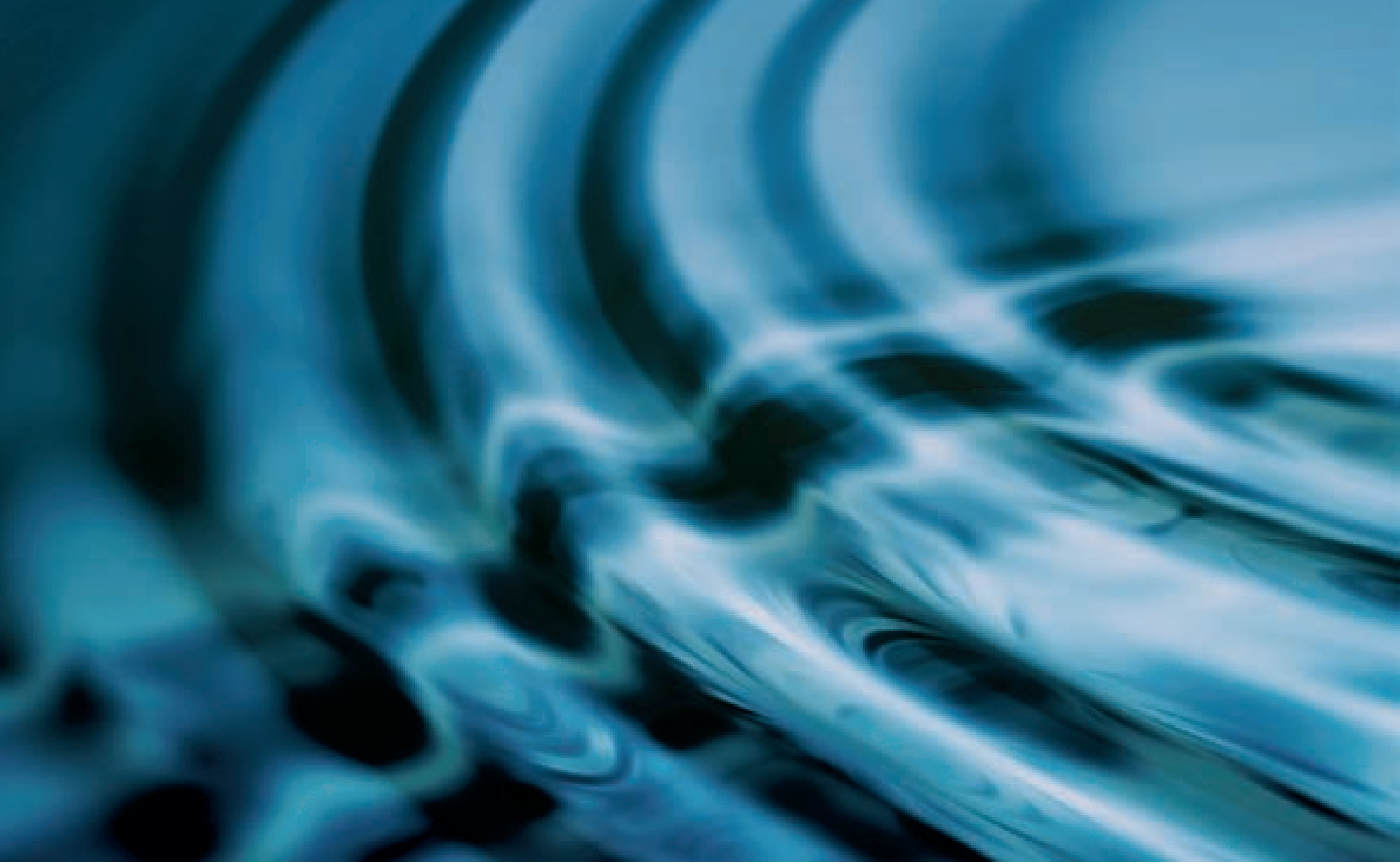
4. Accurate risk assessments of pension plans; timely and effective intervention and feedback; a balanced relevant regulatory framework; and a prudentially effective and responsive approvals process.

International Advisory Group

5. Assistance in raising awareness and improving supervisory and regulatory practices for selected foreign regulators through the operation of an international assistance program.

Office of the Chief Actuary

6. Contributing to financially sound federal government public pension and other programs through the provision of expert actuarial valuation and advice.



Corporate Overview

Role and Mandate

OSFI was established in 1987 by an Act of Parliament: the *Office of the Superintendent of Financial Institutions Act* (OSFI Act). OSFI supervises and regulates all banks in Canada and all federally incorporated or registered trust and loan companies, insurance companies, cooperative credit associations, fraternal benefit societies and private pension plans. *(See figure 1)*

OSFI's mandate is to:

- Supervise federally regulated financial institutions and private pension plans to determine whether they are in sound financial condition and meeting minimum plan funding requirements respectively, and are complying with their governing law and supervisory requirements;
- Promptly advise institutions and plans in the event there are material deficiencies and take, or require management, boards or plan administrators to take, necessary corrective measures expeditiously;
- Advance and administer a regulatory framework that promotes the adoption of policies and procedures designed to control and manage risk;
- Monitor and evaluate system-wide or sectoral issues that may impact institutions negatively.

Figure 1

	Deposit-Taking Institutions	Life Insurance Companies	Property & Casualty Companies	Federally Regulated Private Pension Plans	TOTAL
Number of organizations	151	112	196	1,350	1,809
Assets	$3,103 billion	$479 billion	$109 billion	$132 billion	$3,823 billion

OSFI works with a number of key partners. Together, these organizations constitute Canada's network of financial regulation and supervision and provide a system of depositor and policyholder protection.

OSFI's legislation acknowledges the need to allow institutions to compete effectively and take reasonable risks. It also recognizes that management, boards of directors and plan administrators are ultimately responsible and that financial institutions and pension plans can fail.

Under the OSFI Act, the Minister of Finance is responsible for OSFI. The Superintendent is solely responsible for exercising the authorities under the financial legislation and is required to report to the Minister of Finance from time to time on the administration of the financial institutions legislation.

The Office of the Chief Actuary (OCA), which is an independent unit within OSFI, provides actuarial services to the Government of Canada in the form of reports tabled in Parliament. While the Chief Actuary reports to the Superintendent, he is solely responsible for the content and actuarial opinions in reports prepared by the OCA. He is also solely responsible for the actuarial advice provided by the Office of the Chief Actuary to the relevant government departments, including the executive arm of provincial and territorial governments, which are co-stewards of the Canadian Pension Plan (CPP).

Strategic Outcomes

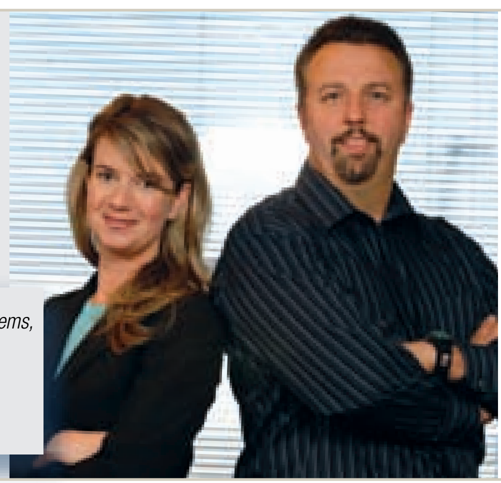
From our mandate, OSFI has identified two strategic outcomes:

1. **To regulate and supervise to contribute to public confidence in Canada's financial system and safeguard from undue loss.**

   OSFI safeguards depositors, policyholders and private pension plan members by enhancing the safety and soundness of federally regulated financial institutions and private pension plans.

2. **To contribute to public confidence in Canada's public retirement income system.**

   The Office of the Chief Actuary provides statutory actuarial reports, and advises on the state of various public pension plans and on the financial implications of options being considered by policy makers.



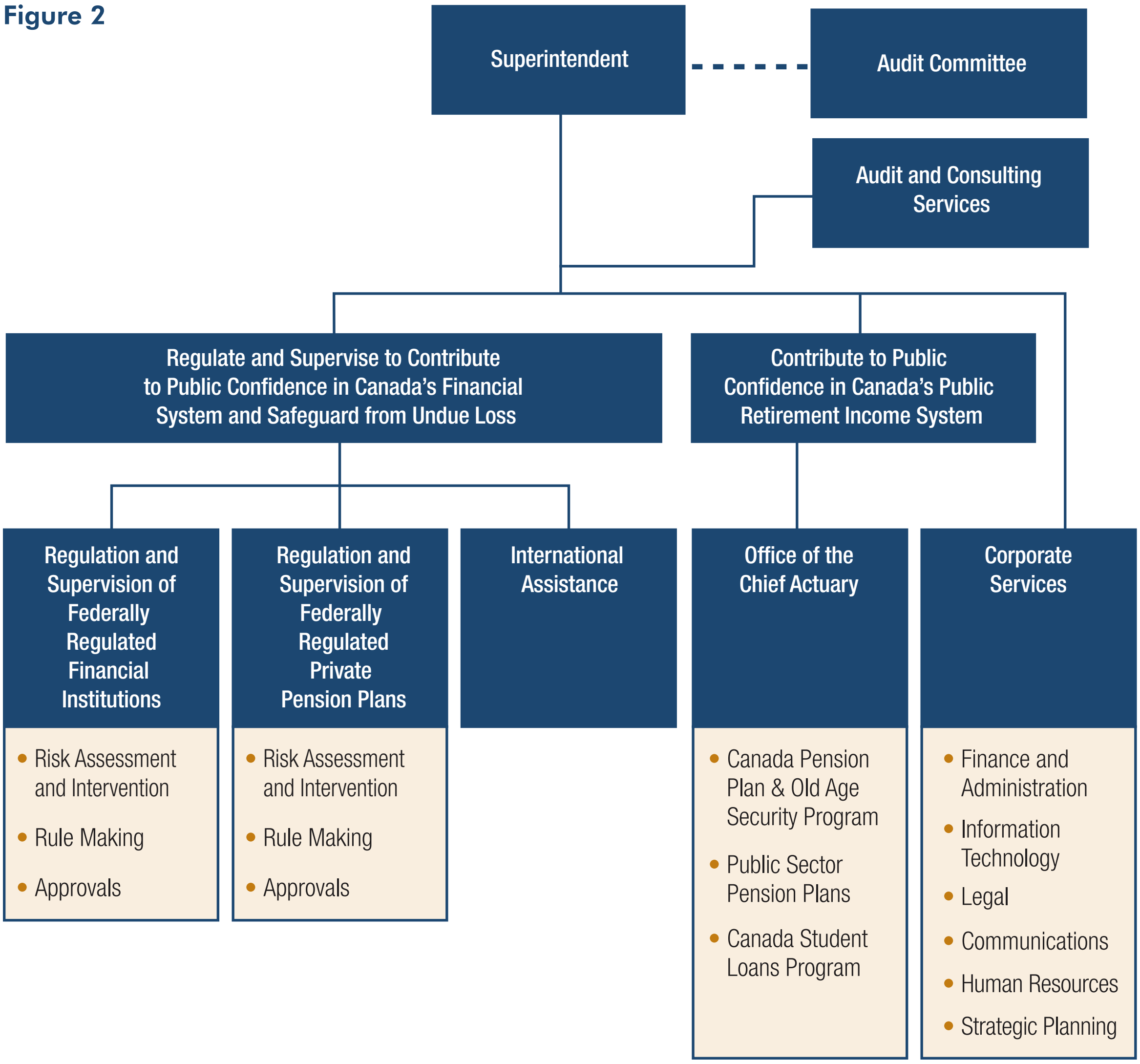
Angie Cordick *Senior Human Resources Advisor, Compensation and Systems, Human Resources and Administration Division*

Richard Jolin *Director, Infrastructure and Technology Services*

CORPORATE SERVICES SECTOR

OSFI achieves its two strategic outcomes as set out in the following chart.

Figure 2



as at March 31, 2008

Resources

Financial Resources

OSFI recovers all of its costs. The organization is funded mainly through asset-based, premium-based or membership-based assessments on the financial services industry and a user-pay program for selected services. A small portion of OSFI's revenue is derived from the Government of Canada, primarily for actuarial services relating to the Canada Pension Plan, the Old Age Security program, the Canada Student Loans Program and various public sector pension and benefit plans. Funding for OSFI's international assistance program is provided by the Canadian International Development Agency.

Human Resources

As at March 31, 2008, OSFI employed 467 people in offices located in Ottawa, Montréal, Toronto and Vancouver – 177 in the Supervision sector, 134 in the Regulation sector, 130 in the Corporate Services sector and 26 in the Office of the Chief Actuary.

Executive Team

Ted Price	*Assistant Superintendent, Supervision Sector*
Julie Dickson	*Superintendent of Financial Institutions*
Coleen Volk	*Assistant Superintendent, Corporate Services Sector*
Robert Hanna	*Assistant Superintendent, Regulation Sector*

Julie Dickson was appointed **Superintendent of Financial Institutions** in July 2007, for a seven-year term. Ms. Dickson joined OSFI in April 1999, and was Assistant Superintendent, Regulation Sector, from January 2000 to June 2006, when she was named Deputy Superintendent. In October 2006, she was appointed Acting Superintendent. Prior to joining OSFI, Ms. Dickson served as Group Leader of the Financial Institutions Practice for a national consulting firm from 1995 to 1998. Before that, she served for 15 years with the Department of Finance, primarily in areas related to financial institution policy. She is a member of the Accounting Standards Oversight Council of Canada. She also represents OSFI on the Financial Stability Forum and the Integrated Supervisors group. As Superintendent, Ms. Dickson serves on the Council of Governors of the Canadian Public Accountability Board and on the boards of directors of the Canada Deposit Insurance Corporation and of the Toronto Leadership Centre.

F. Edward (Ted) Price was appointed **Assistant Superintendent, Supervision Sector** in June 2006. Since joining OSFI in 2001, Mr. Price has served in several senior management roles, most recently as Senior Director, Financial Conglomerates Group. He led the implementation of the Basel II Capital Accord Framework in Canada. Prior to joining OSFI, Mr. Price was a senior executive with Prescient Markets, Inc., an Internet-based investment bank, from 2000 to 2001. Between 1983 and 1999, Mr. Price held various positions in government finance, fixed income and capital markets product development at ScotiaCapital, Inc. In 1995, he was appointed to the Executive Committee and relocated to New York to direct the firm's U.S. business.

Robert (Bob) Hanna was appointed **Assistant Superintendent, Regulation Sector**, in August 2007. Mr. Hanna joined OSFI's predecessor, the Inspector General of Banks, in 1984 and has held a number of positions with increasing responsibilities, primarily in the policy and research areas. He represents OSFI as a member of the Auditing and Assurance Standards Oversight Council. Mr. Hanna was OSFI's representative on the Basel Capital Task Force that oversaw the development of the Basel Capital Framework (Basel II), and in 2006 was appointed to represent OSFI on the Basel Committee on Banking Supervision. He is also a member of the Policy Development Group of that Committee.

Coleen Volk was appointed **Assistant Superintendent, Corporate Services Sector** in November 2007. Before joining OSFI, Ms. Volk was Assistant Deputy Minister, Corporate Services Branch with the Department of Finance, where she directed corporate services for Finance Canada and the Treasury Board Secretariat and served on the executive management committees of both departments. Between 1996 and 2005, she held various positions at Canada Mortgage and Housing Corporation including Treasurer. Ms. Volk's private sector experience includes eight years with Canadian Imperial Bank of Commerce and the Toronto Dominion Bank in the areas of financial systems, corporate finance, treasury and risk management.

Accountability

Auditing

OSFI's Audit Committee – one of the first among government departments and agencies to boast a majority of independent members – met six times in 2007-2008. The Committee provides independent, objective advice, guidance and assurance to help OSFI efficiently and effectively achieve its business objectives and fulfil its mandate. In order to give this support to the Superintendent, the Committee exercises active oversight of core areas of OSFI's accountability, risk and control processes. The Committee also recommends for approval OSFI's financial statements, which are audited annually by the Office of the Auditor General. OSFI's internal audit group conducts assurance audits based on a comprehensive five-year, risk-based plan that is posted on the Web site.

Surveys and Consultations

OSFI regularly conducts anonymous surveys of knowledgeable industry observers to assess its performance and effectiveness as a regulator. OSFI also conducts periodic surveys to gauge public confidence in financial institutions and private pension plans. Survey results are disclosed on OSFI's Web site.

During 2007-2008, surveys were conducted with CEOs of the financial institutions OSFI regulates; with Canadian customers of financial institutions and pension plans; with agents of the OSFI Public Enquiries Call Centre; and, with participants in programs delivered by OSFI's International Advisory Group.

Tracking Public Confidence

In September 2007, OSFI released the results of its seventh biennial survey measuring public confidence in financial institutions and pension plans, *Public Confidence in Canadian Financial Institutions*.[1]

Results overall are very similar to the 2005 study. Canadians reported they remain very confident in the financial health and stability of the financial institutions they patronize, and they continue to be confident in government oversight and regulation of financial institutions. Participants in private pension plans remain confident that their own pension fund will be able to pay their benefits upon retirement. Details can be found in the report, which is posted on OSFI's Web site.

Financial Institutions

In early 2008, the Strategic Counsel, on OSFI's behalf, conducted consultations with CEOs of federally regulated financial institutions. The results provided OSFI with an indication of its performance in certain areas, such as the appropriateness of its supervisory or rule-making practices and the clarity of its feedback to institutions. More details can be found in this report in the chapter on Federally Regulated Financial Institutions. The report, *Financial Institutions Survey 2008*, is available on OSFI's Web site.

1 Environics conducted the survey on behalf of OSFI. The survey results were collected by telephone from a random sample of about 2,000 Canadians, aged 18 and over, from across the country, during April and May 2007. With a sample of this size, the results are considered accurate within plus or minus 1.3%, 19 times out of 20. The report is posted on OSFI's Web site under About OSFI / Reports / Consultations and Surveys.

Nancy Desormeaux *Communications Support Services Officer, Communications and Public Affairs Division*

Cindy Laprade *Financial Analyst, Finance and Corporate Planning Division*

CORPORATE SERVICES SECTOR

Benefits to Canadians

OSFI's strategic outcomes, supported by our plans and priorities, are intrinsically aligned with broader government priorities, specifically strong economic growth, income security and employment for Canadians, and a safe and secure world through international cooperation, as identified in the Treasury Board Secretariat report *Canada's Performance*. A properly functioning financial system that inspires a high degree of confidence among consumers and others who deal with financial institutions makes a material contribution to Canada's economic performance.

Keeping Canadians Informed

In 2007-2008, OSFI continued to communicate its plans and activities to a wide range of interested parties. OSFI made public several reports, including its 2006-2007 *Departmental Performance Report*; its *Plan and Priorities 2008-2011*; and the *23rd Actuarial Report on the Canada Pension Plan* (CPP) from the Office of the Chief Actuary. The full text of these reports can be found on OSFI's Web site.

OSFI is recognized as an international model for prudential regulators and receives many requests to address conferences and other events. In response, the Superintendent and other senior OSFI officials delivered a number of presentations to industry and regulatory forums across Canada and internationally. Audiences and venues included the Canadian Life and Health Insurance Association, the National Insurance Conference of Canada, Financial Services Invitational Forum, Institute of Corporate Directors, Langdon Hall Pensions Forum and Money Laundering in Canada 2007: Adding Knowledge and Building Skills Conference.

The Superintendent made several presentations to Parliamentary Committees including the House of Commons Standing Committee on Finance and the Senate Standing Committee on Banking, Trade and Commerce. Most speeches and presentations are available on OSFI's Web site.

OSFI's external newsletter, *The Pillar*, introduced in 2006-2007, was published three times in 2007-2008. It serves to remind key stakeholders of the latest guidelines, notices, public statements, and other pertinent information released by the Office.

In 2007-2008, work began on changes to OSFI's external Web site so that it will comply with the Government of Canada's new Common Look and Feel Standards for the Internet 2.0. This is a two-year project that will be completed during 2008-2009.

Hellen Lim — *Training Assistant, Human Resources and Administration Division*

Kal Omran — *Managing Director, Project Management Group*

CORPORATE SERVICES SECTOR

Evaluating OSFI's Public Enquiries Call Centre

The Public Enquiries Call Centre is one of OSFI's main points of contact for the general public. In the fall of 2007, Les Études de Marché Créatec +, conducted a confidential consultation on behalf of OSFI, to investigate the quality of service and information provided by the call centre.[2]

The consultation revealed that overall OSFI's Public Enquiries Call Centre was accessible and the service was performed in a professional manner. The study did identify some areas for improvement, which were addressed through technical improvements to the call answer system and refresher training for the call agents.

SHARING OSFI'S EXPERTISE

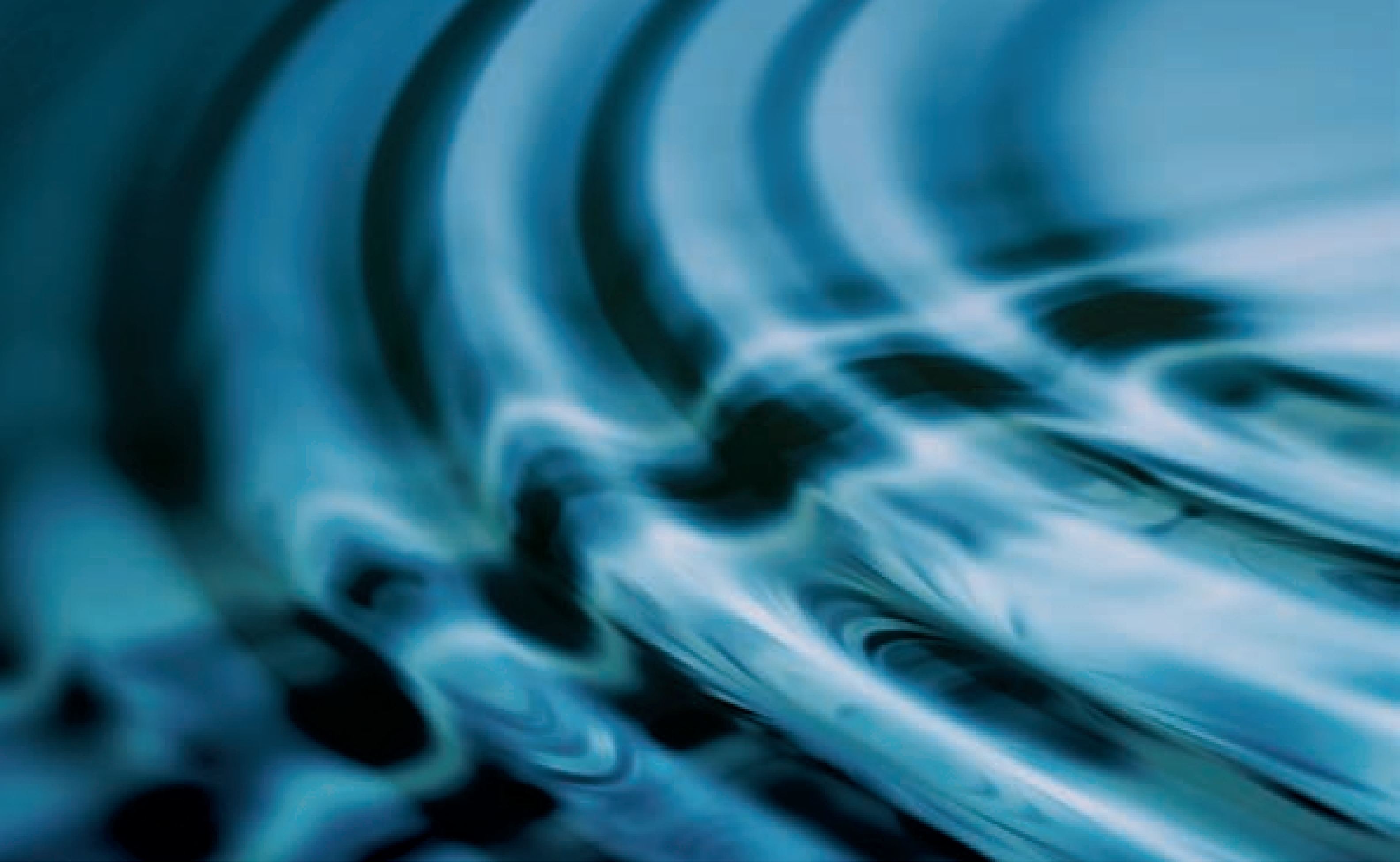
Throughout 2007-2008, OSFI shared its expertise with interested Canadians, including members of the general public, industry, regulators, legislators and the news media:

- Served over 1,215,595 visitors to OSFI's Web site
- Handled 12,916 public enquiries
- Responded to 102 enquiries from Members of Parliament
- Replied to 149 enquiries from representatives of the news media
- Delivered over 35 speeches and presentations to industry and regulatory forums

2 Les Études de Marché Créatec +, an independent research firm, conducted the consultation on behalf of OSFI. The study comprised a series of 50 "mystery calls", covering the most frequent types of enquiries, to OSFI's Public Enquiries Call Centre at random times during October and November, 2007. OSFI does not know which call centre agents handled the calls. The report is posted on OSFI's Web site under About OSFI / Reports / Consultations and Surveys.

1987-2007 — Celebrating **20 years** of success

OSFI was created on July 2, 1987 by the *Office of the Superintendent of Financial Institutions Act* through the merger of its two predecessor agencies – the Department of Insurance and the Office of the Inspector General of Banks. In the two decades since its creation, OSFI has seen significant changes in the institutions it supervises, the global context in which they operate, and the regulatory environment that defines OSFI's activities. Many employees have come and gone during those 20 years, but the commitment and sense of teamwork have remained constant, and the foundation for our success.



Federally Regulated Financial Institutions

Risk Assessment and Intervention

OSFI supervises federally regulated financial institutions (FRFIs), monitors the financial and economic environment to identify issues that may impact these institutions negatively, and intervenes in a timely manner to protect depositors and policyholders from undue loss, while recognizing that management, boards of directors and plan administrators are ultimately responsible, and that financial institutions and plans can fail.

In 2007-2008, OSFI focussed on managing the impact of volatile credit and financial markets on FRFIs' liquidity and capital levels. Pressures on the global financial system had implications for Canadian markets.

Financial Environment

Credit market issues dominated the global financial landscape in 2007. The environment has been difficult, particularly for banks, and the adjustment period could be prolonged.

Starting in the summer of 2007, accumulating losses on U.S. subprime mortgages triggered widespread disruption to the global financial system. Large losses were sustained on complex structured securities. Institutions reduced leverage and increased demand for liquid assets. Many credit markets became illiquid, hindering credit extension. More than eight months after the start of the market turmoil, the balance sheets of financial institutions remain burdened by assets that suffered declines in value and further affected by vanishing market liquidity.

While Canadian banks remain relatively strong compared to international banks, a few banks took material write downs and were pressured to bring securitized assets back on their books, both in the fourth quarter of 2007 and the first quarter of 2008. When the turmoil in the asset-backed commercial paper (ABCP) markets began in August 2007, OSFI moved to assess the impact on all federally regulated institutions (and pension plans). Very few institutions OSFI oversees had material exposure to non-bank ABCP, which was the market most affected.

Despite the relative strength of Canada's financial system throughout this crisis, OSFI is involved in efforts at both the industry and regulatory level in Canada and globally to analyse lessons learned, and to develop guidance and processes that would restore stability and investor confidence in the financial marketplace. Canadian government agencies met regularly to discuss impacts on industry and institutions.

The Superintendent worked with international colleagues to draft the Financial Stability Forum (FSF) report on *Enhancing Market and Institutional Resilience*. The G7 finance ministers and central bank governors established the FSF in 1999 to promote international financial stability through enhanced information exchange and international cooperation in financial market supervision and surveillance.

The FSF report includes over 60 recommendations that have been endorsed by the G7 finance ministers, and covers key issues such as capital and liquidity for banks, as well as the need for more transparency. OSFI is currently working with other regulatory agencies to implement these recommendations in Canada.

Despite market challenges, Canadian financial institutions performed relatively well in 2007 and remained profitable and well capitalized. *(See figure 3)*

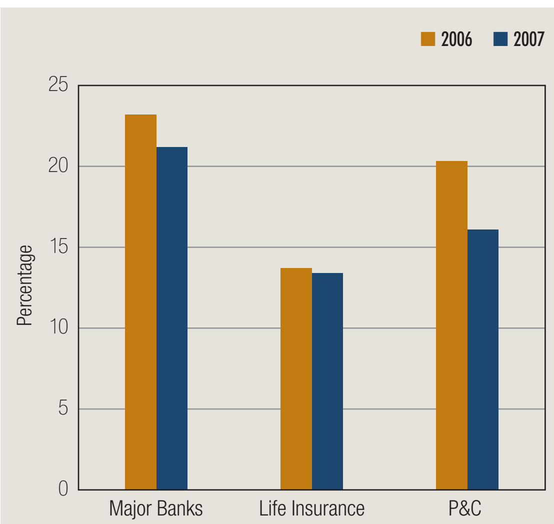
Review by Sector

Major Canadian Banks

Overall, the financial performance of the major Canadian banks for 2007 was relatively strong, despite the recent turbulence in financial markets that impacted the global banking sector. Banks that took material write downs have taken steps to rebuild capital. However, 2008 may bring additional market volatility and uncertainty that will challenge the banks' ability to achieve historical rates of return. OSFI anticipates that banks will continue to improve their risk management control processes and loan loss reserves.

Average return on equity in 2007 was 21.2%, down from a high of 23.2% in 2006. The overall capital position of the major banks remained strong at the end of 2007. The average ratio of total capital to risk-adjusted assets was 11.9%, well above the Bank for International Settlements' 8% minimum threshold and OSFI's 10% target. These high levels of capital provide a buffer against future adverse economic or financial developments. *(See figure 4)*

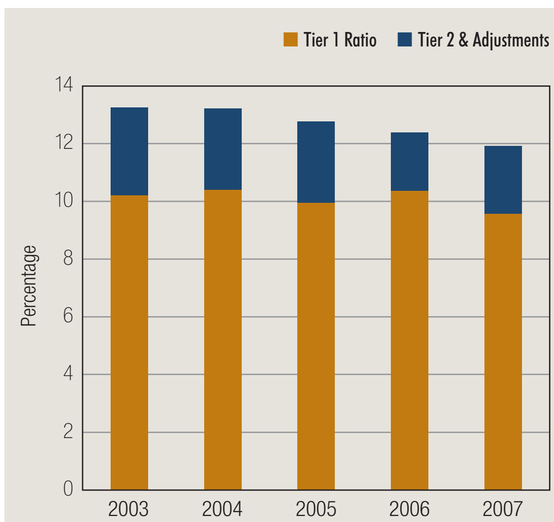
Return on Equity
Figure 3



Note: 2006 results are restated

Canadian financial institutions continued to perform well in 2007 despite the challenging market.

Major Banks: Risk-Weighted Capital Ratios
Figure 4



In 2007, the major banks took steps to maintain capital, with the average ratio of risk-weighted capital remaining well above OSFI's target of 10%.

Other Deposit-Taking Institutions

The financial results for other deposit-taking institutions (DTIs) were generally stable. The continuing demand for financial products in Canada and favourable underlying economic conditions resulted in year-over-year growth in assets and core revenues, while capital ratios generally remained strong. Nonetheless, the sector faces many challenges.

The majority of the smaller institutions are niche players or focus on one or two credit products such as mortgage lending, commercial real estate or credit cards. Without broad business line diversification, they are subject to increased credit risk. An increasing number of these institutions are being affected by one or more factors in the market and some are experiencing pressure on capital.

During 2007-2008, OSFI worked with these institutions to ensure that they have appropriate levels of capital. Focus areas include commercial real estate, subprime mortgages, securitization activity and various forms of stress testing.

OSFI will continue to monitor concentrations and asset quality. For example, analysis of exposures to Canadian real estate markets could indicate concerns related to some institutions.

Liquidity risk management is an area that has gained increasing importance in the current environment. In 2008-2009, OSFI will be working with the DTI industry to benchmark practices and to encourage the development of increasingly robust liquidity management tools.

The decline in investor appetite for asset-backed securities is having an impact on many lenders' business models, particularly those that were reliant on a model where the lender both originates and distributes securities. Where assets such as mortgages or other receivables could previously be originated and then sold through asset-backed securities, the market for those securities has dampened, resulting in less access to liquidity and higher cost of funds for lenders. Lenders are affected by this to varying degrees, depending on their reliance on those securitization channels and their access to alternative sources of cost-effective funds.

Other areas of supervisory focus will include stress testing and asset valuation processes.

IMPLEMENTATION OF BASEL II CAPITAL ACCORD

The revised Basel Capital Framework (Basel II) became effective for Canadian banks on November 1, 2007. The new framework is designed to align regulatory capital requirements more closely with a financial institution's underlying risk profile and risk management practices as compared to Basel I, and is intended to ensure capital holdings adequately underpin those risks. Two broad approaches are permitted for calculating the credit risk requirement. The Standardized approach measures credit risk using standardized risk weightings for different asset categories. The alternative methodology, which is subject to approval by OSFI, would allow banks to use their internal ratings systems to calculate credit risk. As of the first quarter of 2008, Canadian deposit-taking institutions have filed capital adequacy returns based on the Basel II capital adequacy framework and that information will be available on the OSFI Web site.

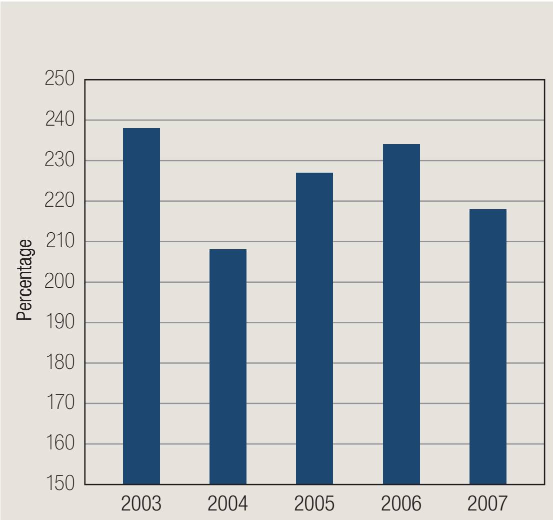
Implementation efforts for the transition to Basel II have been successful. OSFI gave approval to various banks to operate under the Advanced Internal Ratings Based (AIRB) approach, while assisting smaller deposit-taking institutions to transition successfully to the Standardized approach for credit risk. Ongoing focus by the banks and supervisory attention by OSFI will be required as the new capital framework is used to manage capital in the current risk environment.

Life Insurance Companies

The Canadian life insurance industry had a very solid year in 2007. Average return on equity was 13.4%, down modestly from 13.7% the year before.

The life insurance industry is generally well capitalized. Capital ratios for the life insurance industry remained well above minimum regulatory requirements. OSFI's supervisory target ratio for Minimum Continuing Capital and Surplus Requirements (MCCSR) for Canadian companies is set at 150%. The average MCCSR ratio for Canadian life insurers in 2007 was 218%, significantly above OSFI's target capital level. Overall, asset quality remained strong. *(See figure 5)*

Life Insurance Companies: MCCSR Ratios
Figure 5



Note: Data for 2003, 2004 and 2005 excludes reinsurers

In 2007, the average MCCSR ratio for Canadian life insurers remained significantly above OSFI's target of 150%.

With overall strong capital and returns, the life insurance industry was in a healthy position at the close of 2007-2008; however, it faces several challenges.

A significant downturn in Canadian or global equity markets could affect Canadian life insurers in several ways. Life insurers that issue segregated funds may be exposed to risk arising from guarantees embedded in these products. Issuers of universal life products with policyholders opting for equities as the supporting class of investments may face similar liability issues. Life insurers with investments in equities are exposed to the risk of weak stock markets. Strong earnings and capital indicate that insurance companies are well positioned to deal with a potential market correction.

Recent economic conditions have resulted in central banks lowering interest rates. Life insurance company portfolios are well positioned to deal with lower interest rates, however, an extended low interest rate environment would present a challenge to life insurers to maintain previous rates of returns on their investment portfolios and earnings.

International operations are an important component of the operations of the three largest Canadian conglomerate life insurers. Foreign operations provide diversification, and potential for growth. In 2007-2008, OSFI continued to actively review these operations to promote risk management capabilities commensurate with the risks assumed.

Property and Casualty Insurance Companies

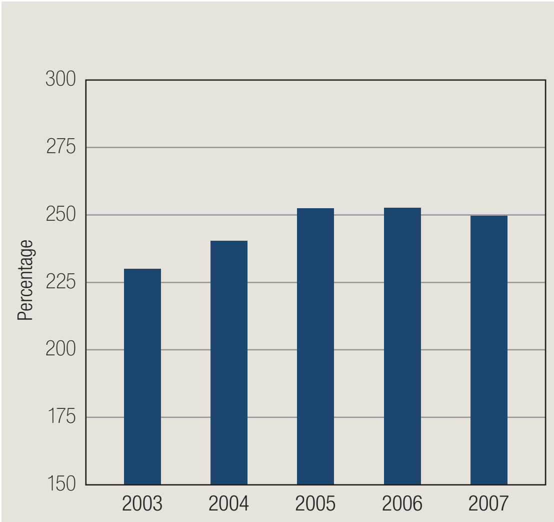
After several years of strong operating results, the property and casualty (P&C) insurance sector is starting to show signs of stress. Although 2007 industry results were strong, most indicators pointed to a year-over-year decline in performance. With personal property, automobile and commercial lines of business all under pressure, there is the potential for another cyclical downturn in this sector.

A principal measure of profitability for the industry is the combined ratio, which measures claims expenses to premium income – a result under 100% indicates that premium income exceeds claims expenses (before associated investment returns). In 2007, the combined ratio increased from 88.6% to 91.9%. Although increasing, the result indicates that the core business of the P&C industry continues to operate profitably.

Industry return on equity was 16.1% down from 20.3% the previous year. Investment income continued to supplement underwriting gains in 2007, with yields remaining relatively constant from 2006. The industry was not affected to a significant degree by the ongoing credit turmoil affecting specific asset classes, although there was an increase in unrealized capital losses during the course of the year.

P&C companies continued to be well capitalized in 2007. The results of 2007 operations continued to support strong Minimum Capital Test (MCT) results for Canadian companies and Branch Adequacy of Assets Test (BAAT) results for branches of foreign companies. The 2007 combined MCT/BAAT result for the industry was 250% – relatively unchanged from 2006 levels and significantly above OSFI's minimum supervisory target of 150%. *(See figure 6)*

P&C Insurance: MCT/BAAT Ratios
Figure 6



Note: Data for 2003, 2004 and 2005 excludes reinsurers

In 2007, the combined MCT/BAAT ratio for the industry was well above OSFI's target of 150%.

With the strong operating results of the past several years, the number of problem or staged P&C companies continues to decline, with only five at December 31, 2007.

The P&C industry remains inherently volatile. Automobile lines remain subject to provincially legislated coverage provisions, as well as rate approval. Claims pressures are evident in the largest automobile market (Ontario) and a recent court judgement in Alberta has overturned the authority of the province to limit damage awards stemming from automobile injuries. Other lines of business remain very competitive in the marketplace, with concerns being expressed over future claims trends.

The industry expresses concerns over increasing weather-related losses deriving from the threat of climatic change. Terrorism remains a major risk. OSFI will continue to monitor loss exposure and the risk management processes of P&C companies to mitigate these risks.

Supervisory Tools

Managing Risk Effectively

OSFI's risk-based supervisory framework supports our ability to identify and intervene on a timely basis when a financial institution's practices are imprudent or unsafe. The methodology involves assessing an institution's inherent business risks, risk management processes, and financial condition. Where appropriate, OSFI uses the work of an institution's oversight functions, as well as the work of its external auditor and appointed actuary, to ensure suitable risk management practices and processes are in place and being followed at the operational level. This allows OSFI to focus its resources on reviewing areas of an institution that are likely to have a material impact on its safety and soundness.

Michèle Harris — *Senior Supervisor*
Jason Mercer — *Manager, Operations*

Financial Conglomerate Group
SUPERVISION SECTOR

In 2007-2008, OSFI implemented an Emerging Risk Committee to enhance early identification and tracking of developments or events that might have a negative impact on, or indicate a future hazard for, federally regulated financial institutions.

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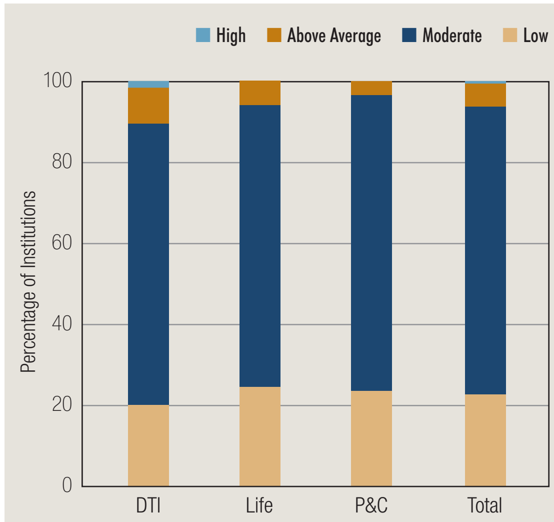
Composite Risk Ratings

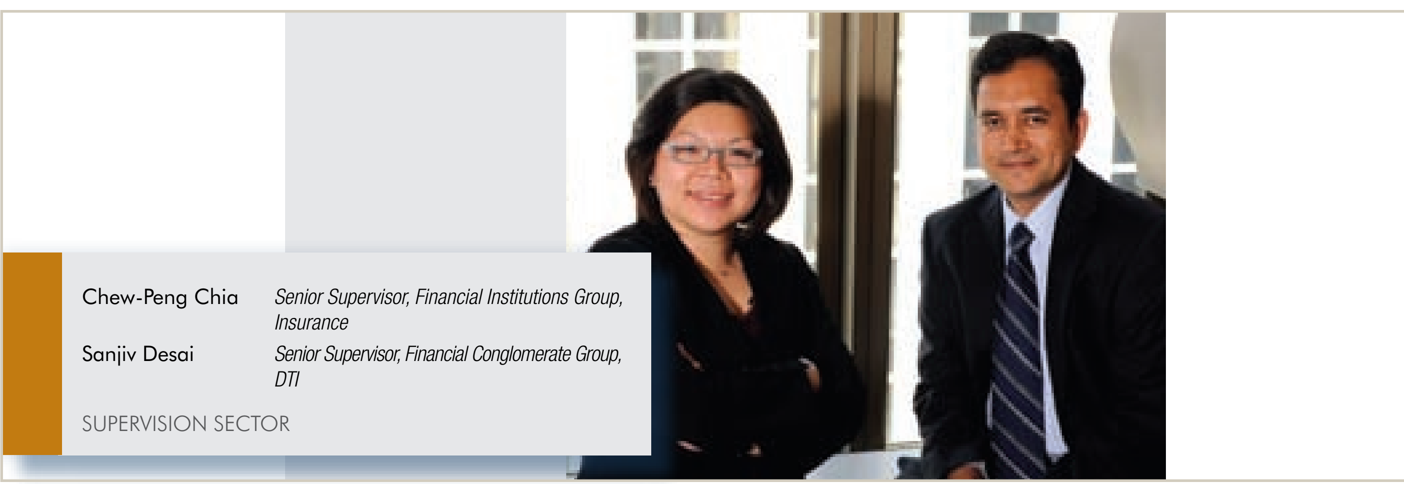
The Composite Risk Rating (CRR) represents OSFI's overall assessment of an institution's safety and soundness. The CRR is guided by a set of assessment criteria that were developed in consultation with the industry. There are four ratings for Composite Risk: 'low', 'moderate', 'above average' and 'high' risk. The CRR is reported to most institutions at least once a year (certain inactive or voluntary wind-up institutions may not be rated). The confidentiality of these ratings is protected by regulation.

As at the end of March 2008, OSFI assigned a low or moderate CRR to 94% of all rated institutions and rated 6% (25 financial institutions) as above average or high risk (compared to 95% and 5% in 2006-2007). Given the challenges faced by the financial sector, the percentage of higher risk institutions is likely to increase over the near term. *(See figure 7)*

Composite Risk Rating by Sector
Figure 7



As at March 31, 2008, OSFI assessed 94% of rated institutions as low or moderate risk.



Chew-Peng Chia — *Senior Supervisor, Financial Institutions Group, Insurance*
Sanjiv Desai — *Senior Supervisor, Financial Conglomerate Group, DTI*

SUPERVISION SECTOR

IMF – FINANCIAL STABILITY ASSESSMENT OF CANADA

In concert with the Department of Finance, the Bank of Canada, major Canadian banks and others, OSFI provided significant input to the IMF's updated Financial Sector Stability Assessment of Canada. The areas of input included work related to stress testing on financial institutions in the case of financial shocks and OSFI's compliance with four recently revised core principles on Liquidity Risk, Operational Risk, Interest Rate Risk in the Banking Book, and Supervisory Techniques.

In February 2008, the International Monetary Fund published an updated assessment report which concluded that "Canada's financial system is mature, sophisticated and well-managed. Financial stability is underpinned by sound macroeconomic policies and strong prudential regulation and supervision." The review found OSFI to be in compliance with all four Core Principles of Supervision assessed and stated that OSFI's supervision is risk-focused and "reliance-based," seeking to leverage the work done within banks with a view to minimize duplication of effort and to control the regulatory costs levied on institutions. Further, the report noted that OSFI has a well-balanced and fully articulated organization, robust processes, well elaborated documentation, sound and suitable methodologies, up-to date tools in line with the international best practices, adequate and competent staffing, and sufficient legal powers effectively used where appropriate. Overall, the report found that the Canadian financial sector is strong, with stress tests showing that the major banks would be able to withstand sizeable shocks to the financial system.

David Gourlay — *Manager, Financial Institutions Group – Vancouver*

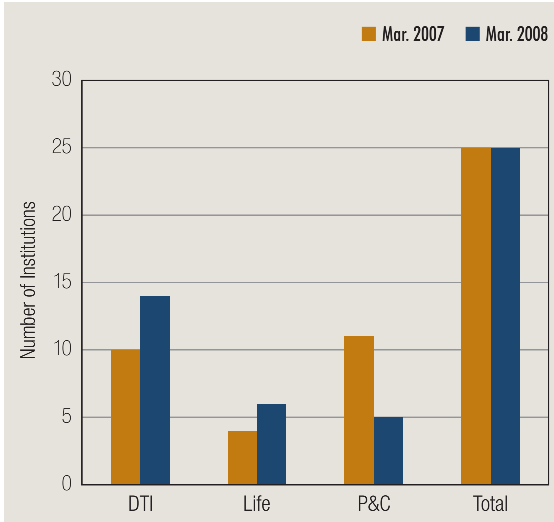
SUPERVISION SECTOR

Intervention Ratings

Financial institutions are also assigned an intervention rating, as described in OSFI's *Guide to Intervention for Federal Financial Institutions*, which determines the degree of supervisory attention they receive. Broadly, these ratings are categorized as: normal (unstaged); early warning (stage 1); risk to financial viability or solvency (stage 2); future financial viability in serious doubt (stage 3); and non-viable/insolvency imminent (stage 4).

As at March 31, 2008, there were 25 staged institutions: the same level as last year. *(See figure 8)* The majority of the staged institutions were in the early warning (stage 1) category, although three have been identified as stage 2. The number of problem P&C insurers has continued to decline, reflecting the relative strength of that sector, while the number of deposit-taking institutions has risen. The number of staged life insurers remains small.

Number of Staged Institutions
Figure 8



The number of problem deposit-taking institutions has risen, reflecting the market stresses in that sector.

Theresa Hee — *Senior Supervisor, Financial Institutions Group – Vancouver*

SUPERVISION SECTOR

Highlights of the 2007-2008 Consultations with Financial Institutions

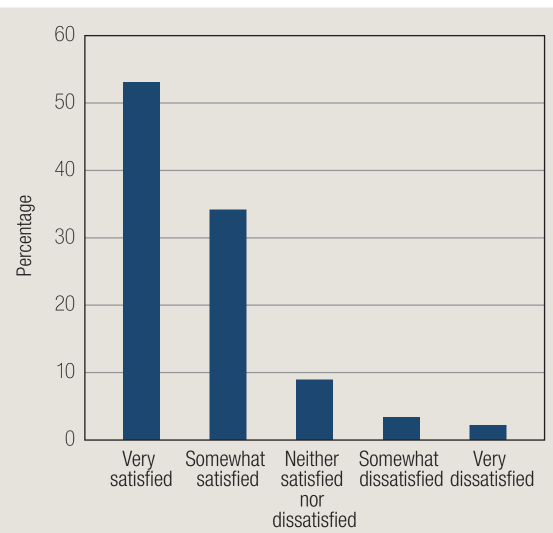
In early 2008, The Strategic Counsel, acting on OSFI's behalf, conducted a survey of CEOs of federally regulated financial institutions to explore perceptions of OSFI's performance.[3] The questionnaire was administered via an on-line survey and through telephone and in-person interviews.

Overall, impressions of OSFI on most of the measures tested are strongly positive. Some areas for improvement were identified, mainly in the area of developing regulations and guidance. The survey report, *Financial Institutions Survey 2008*, is available on OSFI's Web site.

Detailed Findings

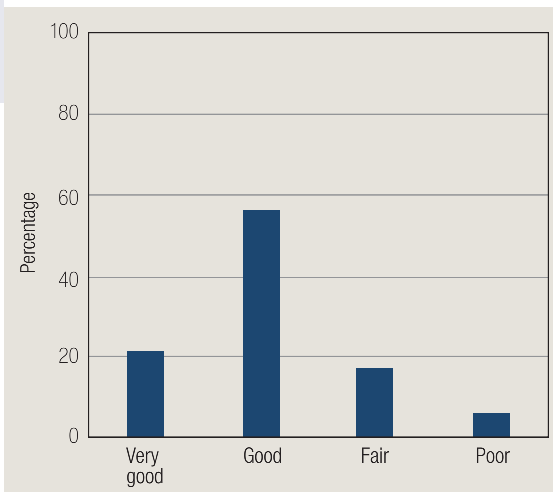
- Among respondents, 87% are satisfied with OSFI as the principal prudential regulator and supervisor of Canada's financial services industry; 88% of CEOs believe that OSFI performs well in contributing to public confidence in Canada's financial services industry. (*See figure 9*)
- Concerning OSFI's regulations and guidance, 92% of CEOs believe that OSFI does a good job of striking an appropriate balance between prudential considerations and the need for institutions to compete; 94% believe that OSFI does a good job of consulting with the financial services industry when developing regulations and guidance. (*See figure 10*)
- Overall, 91% of CEOs are satisfied with OSFI when it comes to processing applications from their institution, and 82% report they understand the basis on which OSFI makes decisions about their institution's applications.
- CEOs suggested that in the next couple of years, the areas of risk that should be priorities for OSFI pertain to: market risk; capital requirements; regulatory risk; catastrophic risk; and complex financial instruments and products.

Overall Satisfaction with OSFI
Figure 9



A strong majority (87%) of CEOs are satisfied with OSFI as the regulator and supervisor of Canada's financial services industry.

Consulting with the Financial Services Industry Figure 10



Overall, 94% of CEOs believe OSFI does a very good, good or fair job of consulting with the financial services industry when developing regulations and guidance.

3 The Strategic Counsel, an independent research firm, conducted the consultations on OSFI's behalf. In early 2008, 166 CEOs participated in the survey, representing active federally regulated deposit-taking institutions, life insurance companies, and property and casualty insurance companies. This is a response rate of approximately 60%. OSFI does not know who participated. The report is posted on OSFI's Web site under About OSFI / Reports / Consultations and Surveys.

Rule Making

OSFI provides a regulatory framework of guidance and rules that meets or exceeds international minimums for financial institutions. This includes the issuance of guidance and input into federal legislation and regulations affecting financial institutions, contributions to accounting, auditing and actuarial standards, and involvement in a number of international rule-making activities.

During 2007-2008, OSFI continued to promote sound risk management practices through its rule making activities. We also continued to work with international bodies to develop international rules that are being directly or indirectly applied to Canadian financial institutions.

Domestic Rule Making

Revisions to Financial Institutions Legislation

Legislation applicable to federally regulated financial institutions is reviewed every five years to ensure it remains current and promotes an efficient, competitive and prudent financial services sector. *An Act to amend the law governing financial institutions and to provide for related and consequential matters* received Royal Assent in March 2007. While the bulk of its provisions have been implemented, in 2007-2008 OSFI continued to work closely with the Department of Finance on the development of regulations in the context of the implementation of certain aspects of the Act.

Collaboration with Canadian Standard Setters

OSFI works closely with the Canadian Institute of Actuaries (CIA) to ensure that its standards are appropriate and lead to acceptable practice in areas such as valuation, risk and capital assessment, as these topics relate to regulated entities. In 2007-2008 OSFI continued its involvement with several CIA practice committees.

OSFI also maintains a strong cooperative relationship with the Canadian Institute of Chartered Accountants (CICA). During 2007-2008, OSFI continued to work closely with the CICA's Accounting Standards Board (AcSB) staff and participated in bilateral discussions with AcSB staff on issues related to the adoption of International Financial Reporting Standards. OSFI will continue to work with AcSB staff on this initiative, which will result in fundamental changes to financial reporting by federally regulated financial institutions.

OSFI continued its membership on the AcSB's User Advisory Council, Insurance Accounting Task Force and the IFRS Advisory Committee. OSFI also continued its collaboration with the Auditing and Assurance Standards Board, and was represented on the Auditing and Assurance Standards Oversight Council and the Accounting Standards Oversight Council.

Capital Guidance

Banks and Trust and Loan Companies – Capital Adequacy Requirements

During 2007-2008, OSFI released a number of updated Guidelines and Advisories related to the measurement of capital and capital adequacy of banks and trust and loan companies. In November 2007, the Capital Adequacy

Mary Thomas *Analyst, Capital, Accounting and Research Division*
Stuart Wason *Senior Director, Actuarial Division*

REGULATION SECTOR

Requirements (CAR) Guidelines on the implementation of the new Basel II capital framework were revised to incorporate a number of clarifications raised by the industry.

In addition, OSFI issued advisories to update these Guidelines in response to market developments in the use of tier 1 qualifying preferred shares and innovative instruments (January 2008), as well as in response to accounting, legislative and other changes affecting the definition of capital and measurement of capital adequacy (April and June 2007).

A number of deposit-taking institutions (DTIs) applied to OSFI to use the advanced approaches outlined in CAR A-1. During 2007-2008, OSFI completed a review of self-assessments these DTIs had completed the previous year, and undertook follow-up reviews with banks. As a result of these reviews, in 2007 OSFI granted a number of approvals, with conditions.

Life Insurance Companies

OSFI made a number of minor revisions to its Minimum Continuing Capital and Surplus Requirements (MCCSR) guideline for life insurance companies in the fall of 2007 – the most important being the provision of explicit instructions on the capital treatment for derivatives, particularly for options. Discussions will continue with the Canadian Life and Health Insurance Association (CLHIA) in advance of the next major modifications to the guideline, scheduled for January 1, 2009.

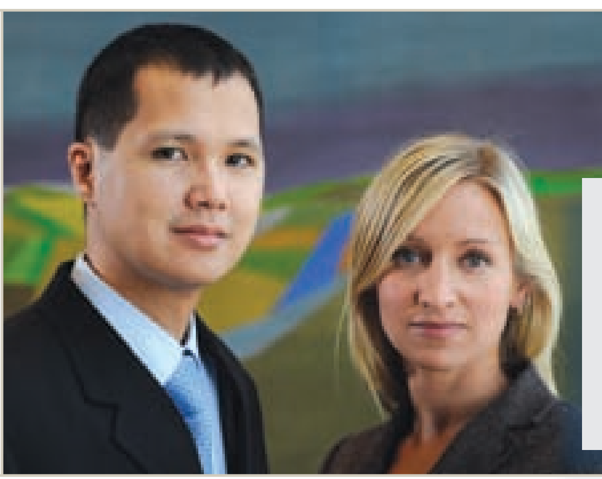
OSFI is developing a new framework for its standardized MCCSR approach with the help of the Autorité des marchés financiers and Assuris. This is in response to the anticipated move to international accounting standards (IFRS – Phase II) that will likely modify the principles for setting insurance liabilities.

In 2007-2008, OSFI engaged in discussions with the life insurance industry on how to update the current approach to measuring life insurance regulatory capital requirements for the new accounting standards that cause material changes to balance sheet items used in the measurement of risks captured in the requirements. The new methodology is expected to be ready for implementation at the same time as IFRS Phase II. A discussion draft of the new framework was posted to OSFI's Web site in March 2008.

OSFI and the life insurance industry continued to work together through the MCCSR Advisory Committee (MAC) to develop and incorporate more advanced risk measurement techniques into the MCCSR. The MAC is composed of representatives from the CLHIA, the Canadian Institute of Actuaries, Assuris, the Autorité des marchés financiers and OSFI. In 2006, the MAC developed high-level principles to guide the development of a new more risk-sensitive capital framework for life insurers, and in 2007 completed a vision paper outlining the framework, available on the OSFI Web site.

Property and Casualty Insurance Companies

OSFI indicated that it will start discussions in 2008-2009 in response to an expression of interest by the property and casualty industry regarding the use of models-based approaches to risk measurement.



John Cuesta — *Senior Supervisor, Financial Conglomerates Group*

REGULATION SECTOR

Erin Feeney — *Senior Compliance Officer, Compliance Division*

SUPERVISION SECTOR

Other Guidance

Background Checks on Directors and Senior Management

During 2007-2008, OSFI continued to work with the industry to finalize its draft guidance on the assessment of responsible persons. This work led to the February 2008 release of Guideline E-17, renamed as Background Checks on Directors and Senior Management of Federally Regulated Entities (FREs).

The guideline will assist federally regulated entities in establishing policies and procedures to conduct assessments of the suitability and integrity of their directors and senior officers. Guideline E-17 is consistent with international developments and with regulatory standards in comparable foreign jurisdictions.

Anti-Money Laundering and Anti-Terrorism Financing Initiatives

In 2007, OSFI turned the focus of its AML/ATF assessment program to the life insurance sector. Overall, OSFI found that Canada's life insurance companies (domestic and Canadian branches of foreign companies) have made some progress in the development of effective AML/ATF programs. However, OSFI intervened where necessary to ensure institutions addressed identified weaknesses and deficiencies. OSFI continued to share findings with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) under its joint Memorandum of Understanding.

Extensive changes to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* were enacted by Parliament in 2007-2008. Most of the regulatory changes were to take effect in June 2008. OSFI amended its assessment methodology to take these new requirements into account.

OSFI continued to play an active role in the work of the Financial Action Task Force (FATF), which is the intergovernmental policy-making body that develops and promotes national and international policies to combat money laundering and terrorism financing.

During the year, the FATF published a Mutual Evaluation Report (MER) on Canada. The MER recognized OSFI's good supervisory coverage of banking and federally regulated trust companies. OSFI's role in the AML/ATF regime in Canada was also recognized as effective. The FATF report was a "snapshot" of the Canadian regime as of June 2007 and does not evaluate the regulatory changes that were to take effect in December 2007 and June 2008. As noted in the report, these changes addressed deficiencies identified in Canada's preventative measures framework for financial institutions and other reporting entities, and bring Canada into compliance with virtually all of the FATF Recommendations.

OSFI's role in the anti-money laundering/ anti-terrorist financing (AML/ATF) regime in Canada was recognized as effective by the [inter-governmental] Financial Action Task Force.

International Activities

International organizations play a key role in the development of regulatory frameworks for banks and life insurers. In 2007-2008, OSFI continued to participate in the development of sound rules that can be applied internationally. While international regulatory frameworks are becoming the norm, OSFI realizes that they must be applied in Canada in a way that respects the realities of the Canadian marketplace.

Canadian financial institutions continued to increase their international operations, some of which represent a material portion of their business. As a result, OSFI continued to build relationships with foreign supervisors through the development of information-sharing agreements with a number of host-country supervisory authorities that regulate significant foreign incorporated subsidiaries of Canadian banks. OSFI has completed more than 20 of these agreements and, in 2007-2008, finalized agreements with the Bahamas and the Netherlands. OSFI continues to negotiate additional agreements, as we have found they often lead to improved coordination of supervisory work between home and host supervisors.

Conceptual Changes to International Accounting Standards

The Canadian Accounting Standards Board's (AcSB) has decided to adopt International Financial Reporting Standards (IFRS) by 2011 as the basis for financial reporting by public companies in Canada. As a result, OSFI has focused on responding to International Accounting Standards Board (IASB) projects through active participation in the Accounting Task Force (ATF) of the Basel Committee on Banking Supervision. As part of its work on the ATF, OSFI provided comment letters in 2007 to the IASB on its Discussion Papers on "Fair Value Measurements" and "Preliminary Views on Insurance Contracts."

Beginning in 2008-2009, OSFI will conduct extensive consultations with federally regulated financial institutions regarding the effects of adopting IFRS so as to work towards a smooth implementation.

Through its participation and membership on the International Association of Insurance Supervisors' (IAIS) Insurance Contracts Subcommittee in 2007-2008, OSFI worked on a response to the IASB Discussion Paper on insurance contracts noted above, as well as submitting an independent response.

International Association of Insurance Supervisors

OSFI actively participates in the work of the International Association of Insurance Supervisors (IAIS), which represents insurance regulators and supervisors of some 140 countries. The IAIS objectives are to contribute to the improved supervision of the insurance industry for the protection of policyholders worldwide, to promote the development of well-regulated insurance markets and to contribute to global financial stability. OSFI participates in the IAIS as a member of the Executive, Technical and Budget Committees and several Subcommittees.

In 2007-2008, OSFI contributed to the development of IAIS guidance papers on mutual recognition of reinsurance supervision, the valuation of technical provisions, the structure of regulatory capital requirements, enterprise risk management for solvency purposes and the use of internal models.

Joint Forum

The Joint Forum – established in 1996 by the Basel Committee on Banking Supervision, the International Organization of Securities Commissions and the International Association of Insurance Supervisors – works to achieve consistency of supervisory approaches on issues of common interest across financial sectors and national borders.

During 2007-2008, OSFI continued its active membership in the Joint Forum, including participation in: 1) the update of the Joint Forum's March 2005 report Credit Risk Transfer (CRT), which is being revised in light of both the increasing complexity of CRT instruments developed since 2004 and the fact that some investors did not understand fully the higher-risk nature of these products, thereby contributing to the market turmoil of 2007; and, 2) the development of a report by the Conglomerate Principles working group, outlining the extent to which member countries have implemented the Joint Forum principles for the effective supervision of conglomerates and the main challenges encountered in doing so.

OSFI continued its involvement with a number of other international groups, including the Financial Stability Forum, the Integrated Financial Supervisors, the Association of Supervisors of Banks of the Americas, the International Association of Insurance Supervisors, the International Actuarial Association, and le Groupe des superviseurs bancaires francophones.

Basel Committee on Banking Supervision

Improving the quality of banking supervision worldwide

OSFI is a member of the Basel Committee on Banking Supervision (BCBS), which provides a forum for cooperation on banking supervisory matters. OSFI continued its active membership in the BCBS, where it is involved in the three main activity streams: the Accord Implementation Group (AIG), the Accounting Task Force (ATF) and the Policy Development Group (PDG).

The AIG allows supervisors to share information and approaches to the implementation of Basel II, thereby promoting consistency across jurisdictions.

The PDG replaced the Committee's former Capital Task Force. Its primary objective is to support the Committee by identifying and reviewing emerging supervisory issues and, where appropriate, proposing and developing policies that promote a sound banking system and high supervisory standards.

The ATF works to ensure that international accounting and auditing standards and practices promote sound risk management at financial institutions, support market discipline through transparency, and reinforce the safety and soundness of the banking system.

During 2007-2008, the BCBS continued to focus on facilitating implementation of the Basel II regulatory capital framework (Basel II), while establishing new mandates to assess the drivers of turmoil in financial markets in early 2008 as well as the implications of market turmoil for the Basel II rules.

BCBS consultation papers

OSFI participated with other BCBS members in the development and finalization of a review of liquidity risk management in the context of recent market turmoil and two Basel II framework related documents in 2007-2008. OSFI fully supports these papers and believes they are an effective vehicle for consulting with industry and articulating supervisory views and expectations.

- *Liquidity Risk: Management and Supervisory Challenges*
- *Guidelines for Computing Capital for Incremental Default Risk in the Trading Book – consultative document*
- *Principles for home-host supervisory cooperation and allocation mechanisms in the context of Advanced measurement approaches (AMA)*

Robert Nguyen — *Manager, Financial Institutions Group – Montréal*
France Guertin — *Manager, Financial Institutions Group – Montréal*
Daniel Stefan — *Senior Supervisor, Financial Institutions Group – Montréal*

SUPERVISION SECTOR

Disclosure of Information

Under the *Office of the Superintendent of Financial Institutions Act*, the Superintendent is required to report to Parliament each year on the disclosure of information by financial institutions and the progress made in enhancing the disclosure of information in the financial services industry.

OSFI contributes to and promotes effective disclosure by publishing selected financial information on OSFI's Web site and through Beyond 20/20 Inc.(see their Web site for more information); by providing guidance to institutions on their disclosures; and by participating in international supervisory groups with similar objectives.

Disclosure associated with market turmoil

In October 2007, the G7 finance ministers and central bank governors asked the Financial Stability Forum (FSF) to examine the causes and weaknesses which contributed to the market turmoil that began in summer 2007, and to come up with recommendations for increasing the resilience of markets and institutions. To carry out this work, the FSF created a working group comprised of representatives from several international bodies and national authorities in key financial centres. OSFI's Superintendent participated as a member of this working group whose findings were reported to the G7 on April 7, 2008 and can be found on the FSF Web site. The report proposed concrete actions to be taken by specified parties in a number of areas, one of which was to enhance disclosure by financial firms of the risks associated with structured credit products and off-balance sheet entities.

The report encouraged firms to provide – using identified leading disclosure practices – more robust risk disclosures in time for their mid-year 2008 reports. OSFI expects Canadian banks to follow the report's recommendation in this regard.

The FSF report also proposes that the Basel Committee on Banking Supervision (BCBS) issue by 2009 further guidance to strengthen disclosure requirements under Pillar 3 of Basel II for securitisation exposures, sponsorship of off-balance sheet vehicles, liquidity commitments to ABCP conduits and valuations. In response, the BCBS has created a "Pillar 3 workstream" aiming to enhance Pillar 3 in the identified areas. OSFI is committed to improving disclosures in this area and is participating on this workstream through its membership in the BCBS. The International Accounting Standards Board (IASB) was also mandated to improve the accounting and disclosure standards for off-balance sheet vehicles and valuations, methodologies and the uncertainty associated with valuations.

OSFI believes that existing Pillar 3 requirements, together with improvements resulting from work of the BCBS and the IASB, are key initiatives to enhance disclosure in the areas identified by the FSF.

Approvals

Federally regulated financial institutions are required to seek regulatory approval for certain types of transactions, including incorporations, orders authorizing the carrying on of business activities in Canada, corporate restructurings and ownership changes. OSFI provides a prudentially effective, balanced and responsive approvals process.

Most Ministerial approvals relate to the acquisition of control or of a significant interest in federally regulated financial institutions, transfer of business or reinsurance transactions, and applications for the incorporation of financial institutions or the authorization of Canadian branches of foreign financial institutions. OSFI approvals typically include reinsurance by related party, redemption of shares/debentures, substantial investment and others.

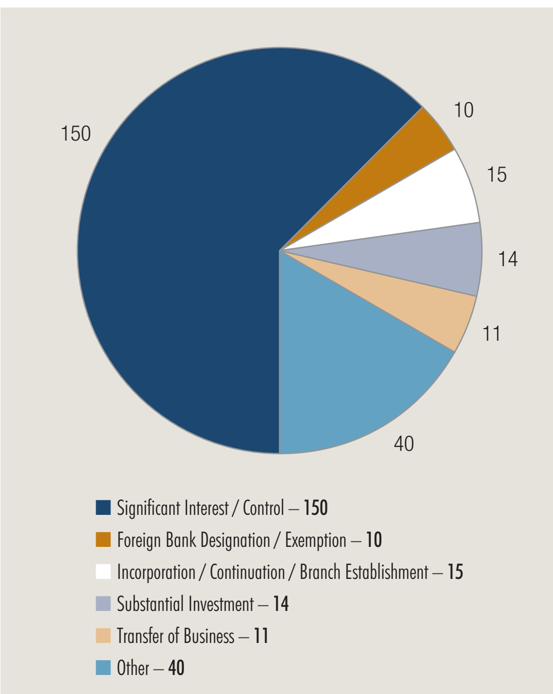
In 2007-2008, OSFI processed 651 approvals related to 278 applications (individual applications often contain multiple approval requests), of which 37% were Ministerial approvals. *(See figures 11 and 12)* Although the number of applications declined from the previous year, the number of approvals rose by 11% (589 approvals related to 359 applications were processed in 2006-2007).

The trend towards innovative or ground-breaking initiatives continued to increase the processing time and complexity of many approvals and, in some cases, raised new regulatory or public policy issues. OSFI spent a considerable amount of time processing approvals relating to corporate restructurings and reorganizations, changes of ownership, incorporation of financial institutions and the authorization of Canadian branches of foreign financial institutions as well as other entry issues. Market disturbances also had an impact on processing time.

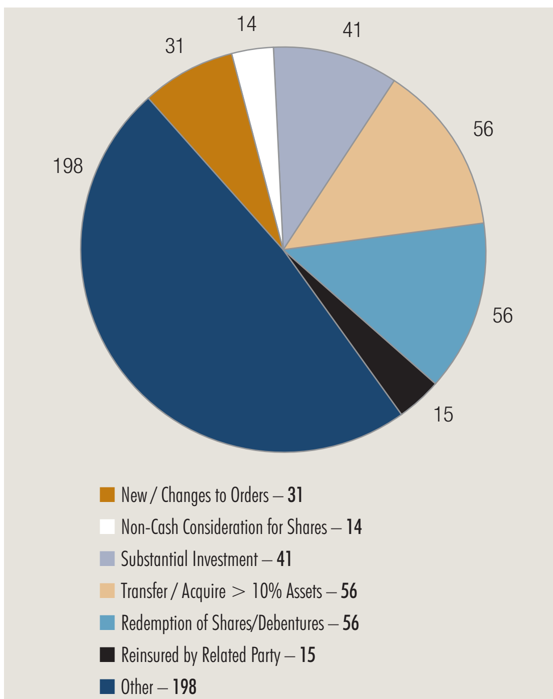
OSFI continues to require security checks on new entrants, Canadian and foreign, and on the proposed senior officers and boards of directors of new financial institutions, which can also increase the time needed to complete a transaction.

When requested, OSFI provides advance capital confirmations on the eligibility of proposed capital instruments. A total of 44 such opinions and validations were provided in 2007-2008 compared to 47 the previous year.

Major Types of Ministerial Approvals
(Number of Approvals)
Figure 11



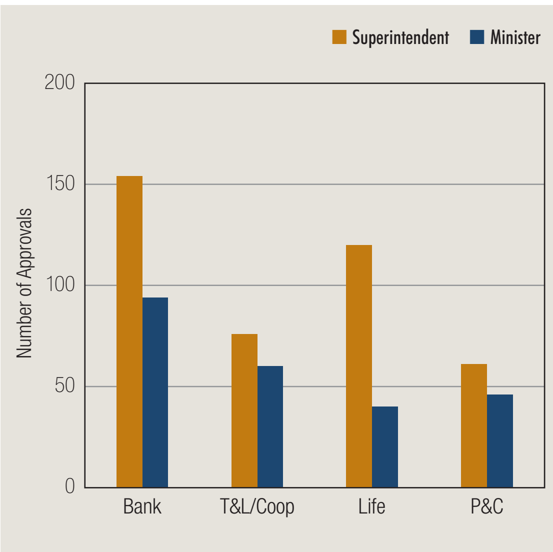
Major Types of Superintendent Approvals
(Number of Approvals)
Figure 12



The trend towards innovative or ground-breaking initiatives continued to increase the processing time and complexity of many approvals.

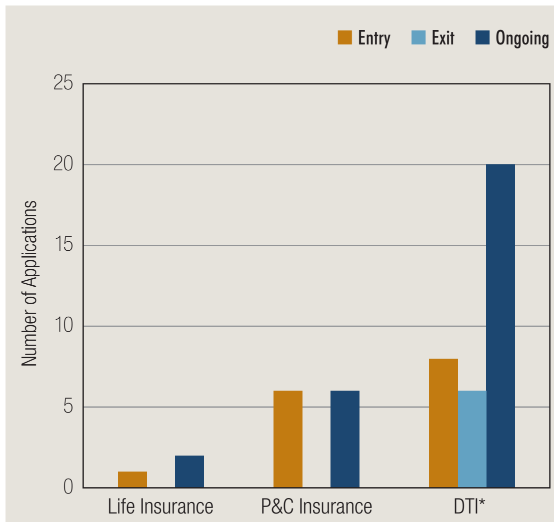
During 2007-2008, two banks and one trust company were incorporated, one provincial trust company was continued federally, and three new federal property and casualty insurance companies entered the Canadian marketplace. Four foreign bank branches (one lending and three full-service) and four foreign insurance branches (one life and three property and casualty) were established. *(See figures 13 and 14)*

Approvals by Industry Sector 2007-2008
Figure 13



In 2007-2008, OSFI processed 651 approvals, of which 37% were Ministerial approvals. The total rose by 11% over the previous year.

FRFI Entry, Exit and Ongoing New Entry Applications 2007-2008
Figure 14



* *Includes non-deposit-taking institutions*

There were 15 new entrants in 2007-2008.

Kate Shaughnessy *Regulatory Officer*
Roger Bossé *Manager, Approvals and Precedents*

Legislation and Approvals Division

REGULATION SECTOR

Guidance and Education

In 2007-2008, OSFI spent a considerable amount of time dealing with technical issues related to the application of the legislative provisions that deal with the carrying on of business in Canada by foreign banks under Part XII of the *Bank Act*, the insuring in Canada of risks by foreign insurance companies under Part XIII of the *Insurance Companies Act*, issues related to when an entity is controlled in fact, and the use of the word "bank" and other trade name use issues.

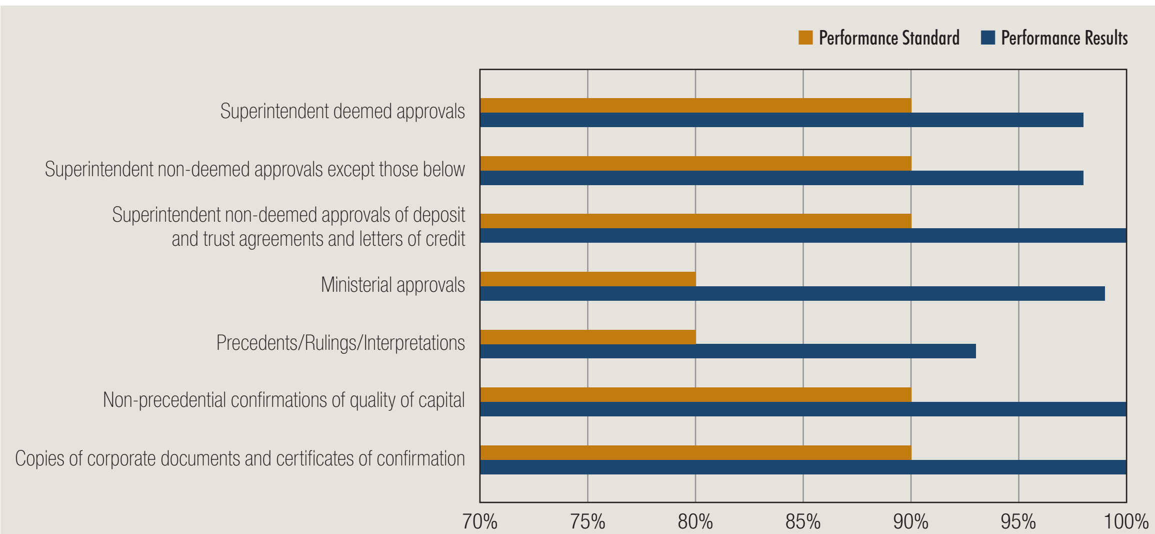
In keeping with OSFI's objectives of enhancing the transparency of its statutory approvals process and of promoting better understanding of OSFI's interpretation of the federal financial institution statutes, OSFI develops and publishes Advisories and Rulings.

In 2007-2008, OSFI published two Advisories: Insurance in Canada of Risks and Control in Fact. OSFI also published Rulings with respect to: Business in Canada – Access to the Canadian capital market; Control in Fact – Trustee or manager; Insurance in Canada of Risks – Financial guarantee insurance and residual value insurance; Business in Canada – Referral arrangement; and Classes of Insurance – Reverse mortgage loan insurance.

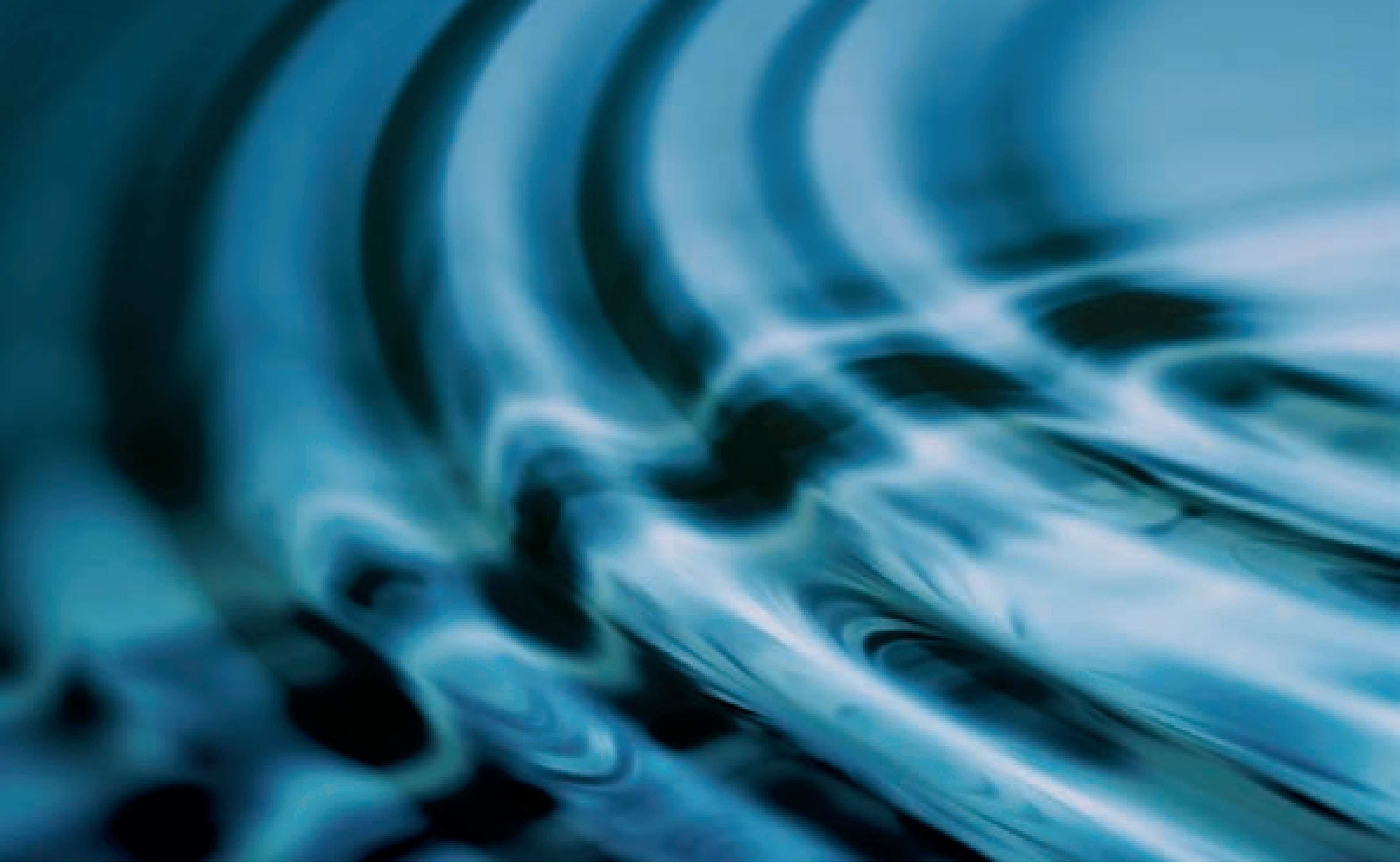
In addition, OSFI contributed to the Department of Finance's Islamic Financial Services Working Group.

In October 2007, OSFI hosted its sixth annual Legislation and Approvals Seminar, attended by approximately 90 representatives of financial institutions and advisors.

OSFI Performance Against User Fee Service Standards 2007-2008
Figure 15



In keeping with OSFI's and the Government of Canada's commitment to enhance accountability and transparency relating to services provided, OSFI has performance standards establishing time frames for processing applications for regulatory approval and for other services. In 2007-2008, OSFI met or exceeded all of these established performance standards. More information on OSFI's performance standards can be found on our Web site under Banks / User Fees / Service Standards.



Federally Regulated Private Pension Plans

OSFI provides risk assessments of pension plans covering employees in federally regulated areas of employment; timely and effective intervention and feedback; a balanced relevant regulatory framework; and a prudentially effective and responsive approvals process.

Private Pension Environment

Favourable market conditions through 2006 and into 2007 lessened funding pressures for many plans going into 2007. The downward pressure on long-term interest rates appeared to ease. However, at year-end the liability discount rate was only marginally higher than a year earlier, and with the emergence of market turbulence in mid-2007, average investment returns for 2007 as a whole were very modest. The returns were characterized by wide divergence across individual plans, depending on their investment strategy and asset mix. As a result of these developments, funding pressures on pension plans have not disappeared.

Changes in financial markets and economic conditions have the potential to adversely impact financial institutions and other financial system participants, including pension plans. During the year, OSFI emphasized the need for plan administrators to assess their exposure to market and other stresses, to consider their risk tolerance, and to take action to manage risk appropriately. This will be particularly important going forward due to market volatility since mid-2007.

Monitoring

As at March 31, 2008, 1,350 private pension plans were registered under the *Pension Benefits Standards Act, 1985*, (PBSA), covering over 594,000 employees in federally regulated areas of employment, such as banking, inter-provincial transportation and telecommunications. In 2007-2008, plan assets increased by 2%, to a value of approximately $132 billion. The great majority of members and assets that OSFI regulates are held in defined benefit plans. Over the past four years, there has been a small but steady increase in the number of defined contribution and combination plans, and the number of defined benefit plans has changed little. *(See figure 16)*

OSFI regulates approximately 7% of pension plans in Canada, according to the latest data available. The majority are under provincial regulation, representing 5.2 million employees with total assets of $961 billion.

The most current pension plan financial statements filed during the 12-month period ending March 31, 2008 report that 53% of pension assets are invested in equities, 39% in debt instruments and 8% in diversified and other assets. OSFI-regulated pension plans made small adjustments to asset allocations relative to the previous period, decreasing equity and increasing debt securities, diversified and other investments.

On average, private pension plans under federal jurisdiction recorded almost 2% return on their investments, substantially under the 12% average recorded in the previous fiscal year.

The average estimated solvency ratio (ratio of assets over liabilities on plan termination basis) for all plans was 1.05 at year end 2007 (virtually level with 1.06 at the previous year end). Estimated solvency ratios calculated by OSFI using year-end 2007 data showed that approximately 56% of all defined benefit plans supervised by OSFI were under-funded, meaning their estimated liabilities exceeded assets, on plan termination basis. OSFI estimates that there are more under-funded plans today than a year ago, and that the aggregate deficit has grown.

Pension Plans by Type (last 4 years)

Figure 16

	Y-E 2007-08	Y-E 2006-07	Y-E 2005-06	Y-E 2004-05
Total Plans	**1,350**	**1,332**	**1,304**	**1,284**
Defined Benefit	351	359	345	344
Combination	95	89	87	84
Defined Contribution	904	884	872	856
Total Membership	**594,000**	**582,000**	**576,000**	**572,000**
Defined Benefit	391,000	386,000	383,000	386,000
Combination	99,000	98,000	99,000	99,000
Defined Contribution	104,000	98,000	94,000	87,000
Total Assets	**$132 billion**	**$130 billion**	**$116 billion**	**$104 billion**
Defined Benefit	$109 billion	$108 billion	$95 billion	$85 billion
Combination	$19 billion	$19 billion	$18 billion	$16 billion
Defined Contribution	$4 billion	$3 billion	$3 billion	$3 billion

As at March 31, 2008, there were 1,350 private pension plans registered under the Pension Benefits Standards Act, 1985 *(PBSA), covering over 594,000 employees.*

In November 2006, the Solvency Funding Relief Regulations came into force, allowing federal pension plans to consolidate their solvency deficiencies and amortize the amount over five years or, subject to obtaining the buy-in of plan members and retirees or the use of letters of credit, over 10 years. On March 31, 2008, a total of 75 pension plan sponsors are funding their plan under these regulations: 43 plans are using the five-year fresh start while 14 are funding solvency deficiency over 10 years under the buy-in option, while 18 are funding over 10 years using letters of credit.

Adjustments to Pensions

As required by the *Pension Benefits Standards Act, 1985*, plan sponsors report the extent to which they have provided inflation protection and the source of funds for the adjustments.

Inflation Protection

In 2007-2008, 21% of the plans that offer defined benefits reported increases in pensions being paid out, i.e., retirees' pensions (compared to 22% the previous year). Of these plans, 36% also increased deferred pensions.

Increases were based on full Consumer Price Index (CPI) in 39% of cases, 25% on partial CPI and 36% using other formulae, such as excess interest, a flat dollar amount, or a percentage of pension payment. In 61% of cases (74% in 2006-2007), adjustments were made as a result of collective agreements or were required by the plan text. In the remaining cases, employers made voluntary adjustments.

Source of Funds for Adjustments

During 2007-2008, 34% of the plans that made adjustments to pensions did so using surplus funds or gains (compared to 32% the previous year). The remainder used sources outside the pension fund, created unfunded liabilities, or used some combination of options to improve pensions.

In 25% of cases, where plans had surplus/gains, they improved benefits, while in 61% of cases the employer used surplus/gains to reduce contributions. The remaining 14% used their surplus/gains for both. This is a small change from 2006-2007, when 25% used surplus/gains to improve benefits and 54% reduced contributions while 21% did both.

Patrick Wellington *Supervisor*
Sylvia Bartlett *Acting Policy Manager*

Private Pension Plans Division

REGULATION SECTOR

Risk Assessment, Supervision and Intervention

Given the potential for changes in economic and financial conditions to adversely affect the financial position of pension plans, OSFI encourages pension plan sponsors and administrators to remain vigilant and knowledgeable about techniques to manage volatility and potential risks. OSFI will continue to carefully monitor both the condition of private pension plans, and, to the extent possible, that of their sponsors, and will intervene when necessary.

Some plans are still facing challenges - financially weak sponsors and defined benefit plans with negotiated contributions being particularly vulnerable to funding pressures and volatility.

To align with and respond to the changing external environment for pensions, OSFI continued a review of the pension risk assessment framework begun in 2006-2007, in order to strengthen the risk-focused approach to pension supervision and to direct our resources most effectively. In addition, OSFI's Enterprise Risk Management assessment identified a need to upgrade the systems that support our supervisory efforts. These two initiatives will be implemented over the next few years.

OSFI expects the main pillars of the current risk assessment framework for pension plans to continue – early warning tests, solvency testing, on-site examinations, the watch list and use of intervention powers.

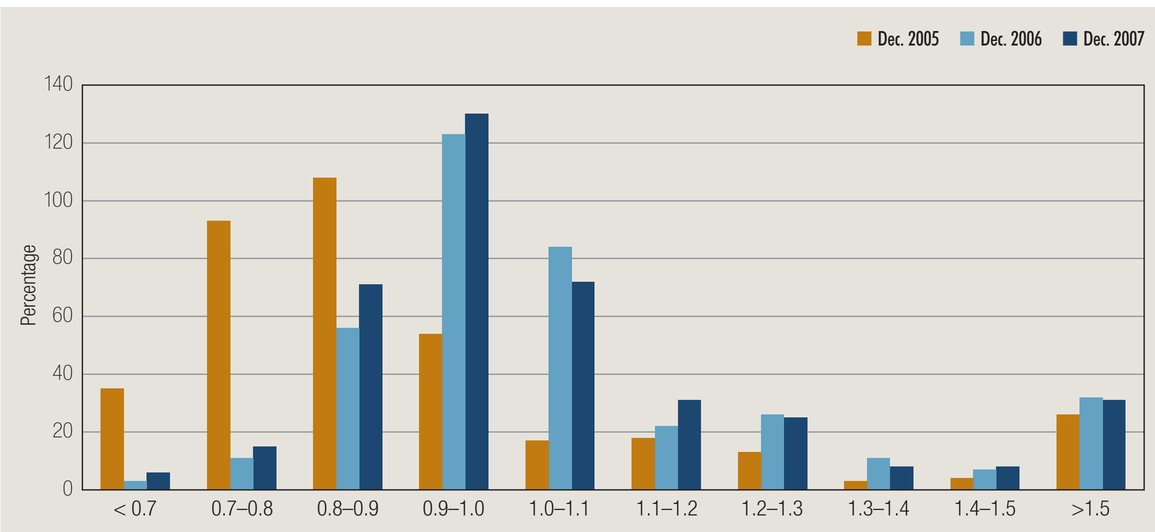
Early Warning Tests

OSFI has developed a series of early warning tests to detect risks based on information submitted in pension plans' filings. An initial series of automated tests is run to identify higher-risk plans. These plans are then subject to a more detailed analysis by OSFI's pension plan supervisors in an effort to assess whether further action should be taken. In 2007-2008, 22% of plans that remitted filings were subject to the more detailed review.

Solvency Testing

Early detection of solvency and funding problems is a key element in safeguarding members' benefits. OSFI runs a solvency test on a semi-annual basis to estimate solvency ratios for all defined benefit pension plans. This test provides OSFI with important information, allowing it to intervene earlier in at-risk pension plans. *(See figure 17)*

Defined Benefit Plans Estimated Solvency Ratio (ESR) Distribution (past 3 years)*
Figure 17



**as at December 31st*

There are more plans with an ESR < 1 as at the end of December 2007 than a year earlier.

Through this testing, OSFI identified under-funded pension plans that were taking contribution holidays in 2007-2008. In certain instances, it was OSFI's view that the taking of contribution holidays was not prudent. OSFI took action, ranging from strongly encouraging plan sponsors to cease contribution holidays, to requiring enhanced notification to members and/or requesting early valuation reports, triggering enhanced funding. These situations were all dealt with to OSFI's satisfaction.

On-Site Examinations

OSFI's risk-based supervisory approach includes on-site examinations of selected pension plans, which allows OSFI to enhance its assessment of the financial situation and quality of the administration of plans.

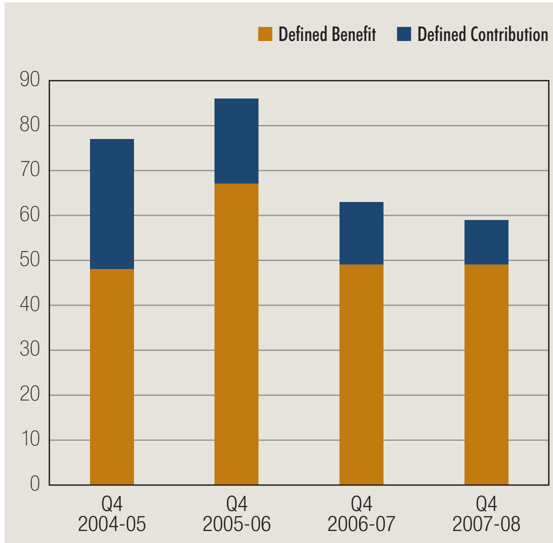
OSFI performed a number of on-site examinations during the year with a continued focus on governance and disclosure to members, and completed detailed desk reviews of select other plans.

Watch List

Consistent with a risk-based approach to supervision, OSFI considers the size of the plan's deficit and the sponsor's capacity to fund it. Pension plans that give rise to serious concern, due to their financial condition or for other reasons, are placed on a watch list and are actively monitored.

The number of private pension plans on OSFI's watch list declined slightly during 2007-2008 from 63 at the start of the year to 59 at the end of the year. Of these, 49 were defined benefit plans (49 in 2006-2007) and 10 were defined contribution plans (14 in 2006-2007). During the course of 2007-2008, 10 new plans were added to the watch list and 14 were removed, in part due to OSFI's intervention. *(See figure 18)*

Watch List Trend by Plan Type (past 4 years)
Figure 18



The number of pension plans on OSFI's Watch List declined modestly to 59 in the fiscal year 2007-2008 from 63 in 2006-2007.

Intervention

OSFI works closely with plan sponsors, administrators, custodians and other stakeholders to find reasonable solutions to protect members' benefits.

In 2007-2008, OSFI intervened with respect to high-risk pension plans, including taking measures to enforce minimum funding requirements and ensure timely remittance of contributions. OSFI also used its authority to require a number of plans to provide enhanced and prompt disclosure of financial information to members.

Rules and Guidance

OSFI strives for a balance between making rules that protect members' benefits while not impeding the provision of pension plans by employers. Setting rules and guidance is done through co-operation and consultation with major stakeholders and other regulators.

OSFI continues to promote responsible pension plan governance and actuarial practices by working closely with the Canadian Institute of Actuaries and the Canadian Association of Pension Supervisory Authorities (CAPSA). OSFI is a member of CAPSA, a forum for discussing common issues faced by federal and provincial pension plan supervisory authorities.

In the spring of 2007, the Federal Government announced as part of its budget that it would move forward with proposed regulatory and legislative changes to give defined benefit pension plans the ability to offer phased-in retirement. OSFI worked with the Department of Finance to develop legislation and regulations for phased-in retirement. In addition, OSFI provided input on required amendments to the *Pension Benefits Standards Act 1985* and regulations as a result of the rule changes for life income funds (LIFs) announced in the February 2008 Federal Budget.

In keeping with the objectives of promoting transparency and improving stakeholders' understanding of OSFI's expectations, the newsletter *PBSA Update* was published twice during the fiscal year. In the past year, OSFI initiated a pension policy development process with more extensive external consultation; draft versions of revised guidance on the reporting requirements for terminating defined contribution and defined benefit plans were posted on OSFI's Web site for industry comments.

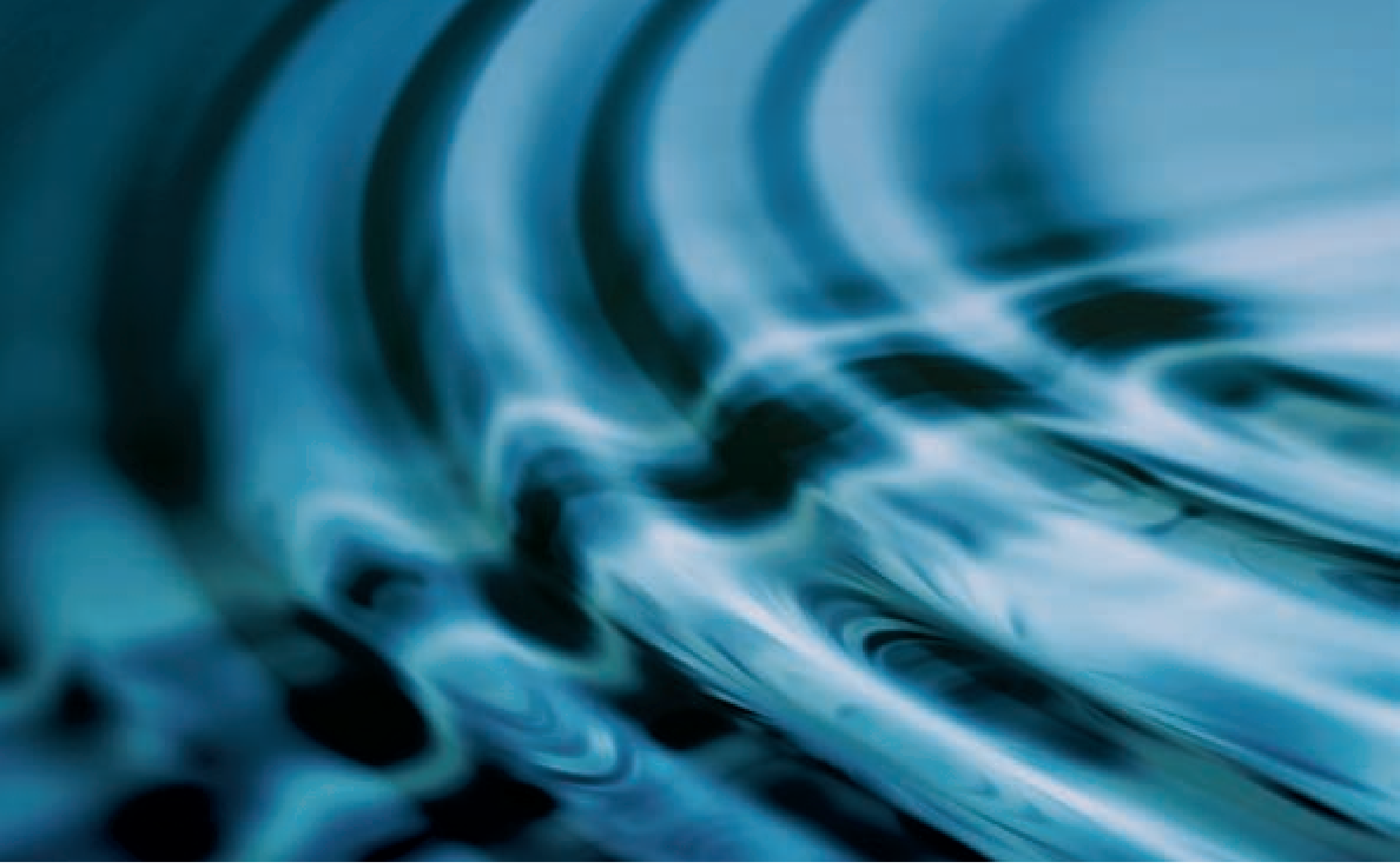
Approvals

Federally regulated private pension plans are required to seek approval from the Superintendent of Financial Institutions for different types of transactions affecting pension plans, including plan registration, asset transfers (including mergers and spin-offs), full and partial plan terminations, refunds of surplus, or reduction of benefits.

During 2007-2008, OSFI added resources and introduced more streamlined processes to improve timeliness while ensuring complex transactions are carefully considered. In addition, OSFI pursued enhancements to its automated systems to support the pension approvals function, to be completed in 2008-2009. As a result of focused effort to reduce a backlog in requests for approvals – which included refining internal approval processes and publishing additional approval instruction guides to the pension industry – OSFI cut the number of outstanding requests for approval by 25%, with a substantial 50% reduction in cases more than two years old.

The number of transactions requiring the Superintendent's approval has remained steady. During the year, OSFI processed 112 applications for approval and received 104 new requests. In 2007, 63 new plans were registered with OSFI. Of these, 23 were defined benefit plans. A further 27 registered plans, affecting about 2,100 members, informed OSFI that they were terminating or consolidating.

As a result of focused effort to reduce a backlog in requests for approvals, OSFI cut the number of outstanding requests by 25%.



International Assistance

The International Advisory Group (IAG) within OSFI assists selected developing and emerging market economies to improve their supervisory systems in line with international banking and insurance supervisory standards, thereby enhancing the stability of the global financial system. The Canadian International Development Agency (CIDA) provides the bulk of the funding for the group.

IAG conducts needs assessments and provides hands-on technical advice, training, workshops and seminars, primarily to supervisors in Asia, Latin America, Africa and the Caribbean. In order to achieve efficiency and economy in program delivery and training of supervisors from many different jurisdictions, IAG also collaborates with a number of regional banking and insurance associations and other technical assistance providers such as the Financial Stability Institute.

The demand for technical assistance from IAG continues to grow, especially from supervisory authorities in Africa and Asia. In 2007-2008, IAG hosted many international delegations to OSFI and received requests for technical assistance from jurisdictions of varying size and with financial regulatory systems at various stages of development.

During the review period, IAG delivered several bilateral or multilateral programs, sometimes in partnership with other technical assistance providers, in 30 countries. IAG continues to work closely with the supervisory authorities in Ghana, Nigeria and Malaysia to help these jurisdictions transition to risk-based supervision for financial institutions.

OSFI continues to support the Toronto International Leadership Centre for Financial Sector Supervision by participating on the Board of Directors and providing resources, most notably Program Leaders and Presenters, to assist with the delivery of the Centre's programs. Through the Centre, individuals with substantial experience in financial supervision from Canada and abroad help supervisors acquire the knowledge and leadership skills to build effective supervisory regimes in their countries.

In 2007, two independent reviews of IAG's activities were undertaken. In the spring of 2007, OSFI commissioned an independent research firm, to survey stakeholders of IAG's technical assistance program, e.g., workshop participants, recipient organizations, and delivery partners[4]. In all areas of inquiry, responses from the various groups were consistently positive. Overall, responses yielded a good assessment of IAG's activities and contribution, both in terms of the competence and relevance of the program delivery, and in the implementation of knowledge and skills gained through IAG's continued support.

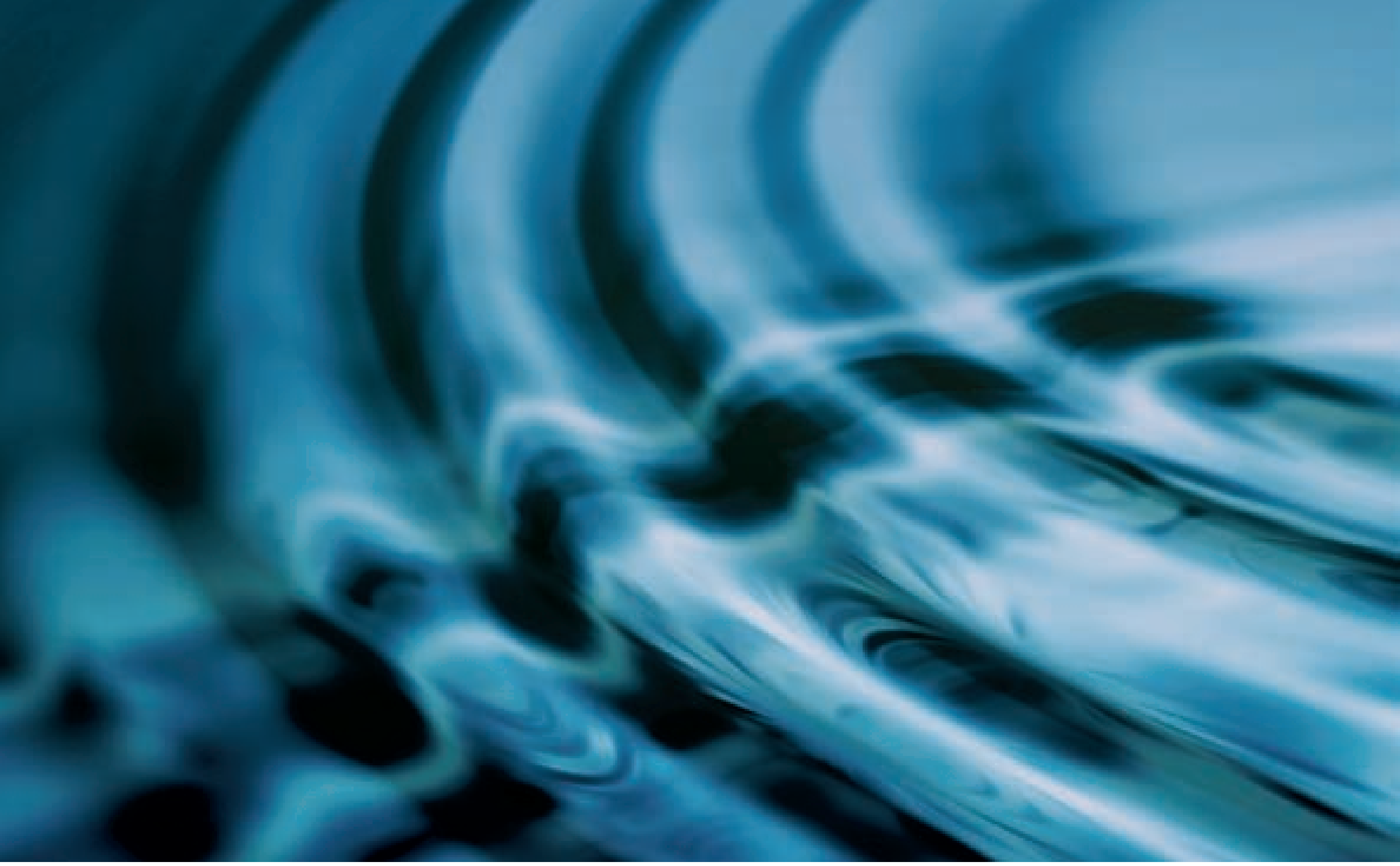
CIDA's Performance Review Policy necessitates periodic independent evaluations of its technical assistance projects. In the fall of 2007, CIDA consulted with a number of organizations overseas that have received assistance from IAG. The results of these inquiries indicate that there have been important and generally sustainable impacts on capacity building in countries where IAG has established continuing relationships through follow-up visits. OSFI's training workshops were also seen to be useful. Going forward, IAG will increasingly focus on a limited number of priority countries, chosen primarily for their capacity to effect change.

For more information on the IAG program, please visit the IAG section of OSFI's Web site.

Supervision Workshop in Vanuatu

OSFI's James Bruce, Jean Sarazin and Kim Norris of the International Advisory Group are pictured during the Regional Insurance Supervision Workshop in Port Vila, Vanuatu, with participants from the following countries: Cook Islands, Federated States of Micronesia, Fiji, Marshall Islands, Papua New Guinea, Samoa, Solomon Islands, and Vanuatu.

4 OSFI commissioned Universalia, an independent research firm with experience in international development, to design and administer an online survey of stakeholders. Invitations to participate were sent to a sample (179) of program participants; of these, 72 completed the questionnaire for a response rate of 40.2%. The final report is available on OSFI's Web site under International Advisory Group.



Office of the Chief Actuary

The Office of the Chief Actuary (OCA) contributes to financially sound federal government public pension and other programs through the provision of expert actuarial valuation and advice to the Government of Canada and to provincial governments that are Canada Pension Plan (CPP) stakeholders.

The OCA conducts statutory actuarial valuations of the CPP, Old Age Security (OAS) program, and pension and benefits plans covering the federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police (RCMP), federally appointed judges, and Members of Parliament. The OCA also undertakes the actuarial review of the Canada Student Loans Program.

The OCA was established within OSFI as an independent unit and, while the Chief Actuary reports to the Superintendent, he is solely responsible for the content and actuarial opinions in reports prepared by the OCA.

Tabling of the 23rd Actuarial Report on the Canada Pension Plan

The OCA is required by law to produce an actuarial report on the Canada Pension Plan every three years. The 23rd Actuarial Report on the CPP as at December 31, 2006 was tabled on October 29, 2007. Prepared by the Chief Actuary of OSFI, this triennial actuarial report on the CPP involves projections of CPP revenues and expenditures over a long time period (75 years), so that the future impact of historical and projected trends in demographic and economic factors can be properly assessed.

The CPP provides protection to millions of Canadian workers and their families against the loss of income due to retirement, disability and death. In 2007, about 5 million Canadians received CPP benefits, with a total value of approximately $28 billion. Canadians want to feel confident that the CPP will be able to meet their needs in future years.

The actuarial report provides Canadians with the most recent information on the financial status of the Plan. The report finds that the legislated 9.9% combined employer-employee contribution rate is expected to be sufficient to sustain the CPP as larger numbers of Canadians reach retirement age and life expectancy continues to increase.

External Peer Review of the 23rd CPP Actuarial Report

The Office of the Chief Actuary commissioned an external peer review of the 23rd CPP Actuarial Report. First introduced in 1999, the independent panel of reviewers is intended to ensure that actuarial reports meet high professional standards and are based on reasonable assumptions in order to provide sound actuarial advice to Canadians.

The independent panel's findings confirm that the work performed by the OCA on the 23rd CPP Actuarial Report meets all professional standards of practice and statutory requirements, and state that the assumptions and methods used are reasonable. The panel also stated that the report fairly communicates the results of the work performed by the Chief Actuary and his staff.

The panel found that each of the major actuarial assumptions is within the reasonable range. As a result, the Chief Actuary's conclusions on the CPP's financial sustainability are well supported.

The external peer review of the 23rd CPP Actuarial Report is public, as were previous peer reviews of the CPP Actuarial Reports, and is available on the OSFI Web site under Office of the Chief Actuary.

Reports, Presentations, Services and Special Studies

The OCA completed a number of reports in 2007-2008, including actuarial reports on the pension plans for the Members of Parliament (February 2008), Federally Appointed Judges (November 2007) and on the benefit plan financed through the Royal Canadian Mounted Police (dependants) Pension Fund (September 2007). These reports were subsequently tabled before Parliament, and provide actuarial information to decision-makers, Parliamentarians and the public, increasing transparency and confidence in the retirement income system. The OCA also completed its sixth annual actuarial review of the Canada Student Loans Program.

Other services provided by the OCA during the year included:

- Various expert witness reports before the CPP Pension Appeals Board;

Jean-Claude Ménard *Chief Actuary*

Jean-Claude Ménard was appointed **Chief Actuary** in August 1999. Prior to joining OSFI, Mr. Ménard held progressively senior roles with the Quebec Pension Board, culminating in his appointment as Chief Actuary and Director of Valuation in 1995. From 2002 to 2007, he was Vice-Chairman of the Technical Commission of Statistical, Actuarial and Financial Studies of the International Social Security Association (ISSA). In 2008, he became Chairman of that Commission. In this capacity, he is the official representative of the ISSA and the Canadian Institute of Actuaries on the Social Security Committee of the International Actuarial Association. In February 2008, he was appointed member of the National Academy of Social Insurance (NASI), a non-profit organization made up of the leading experts on social insurance.

- Ongoing advice and support to the federal-provincial CPP committee of officials;
- Public Accounts actuarial reports on the major public sector pension plans sponsored by the government including information used in the financial statements of the Public Service, Canadian Forces and RCMP pension plans;
- Public Accounts actuarial reports for the Public Service Health Care Plan and Pensioners' Dental Service Plan, and assessment of the workers' compensation actuarial liability for the accounting of retirement and post-employment benefits under the government accrual accounting policies;

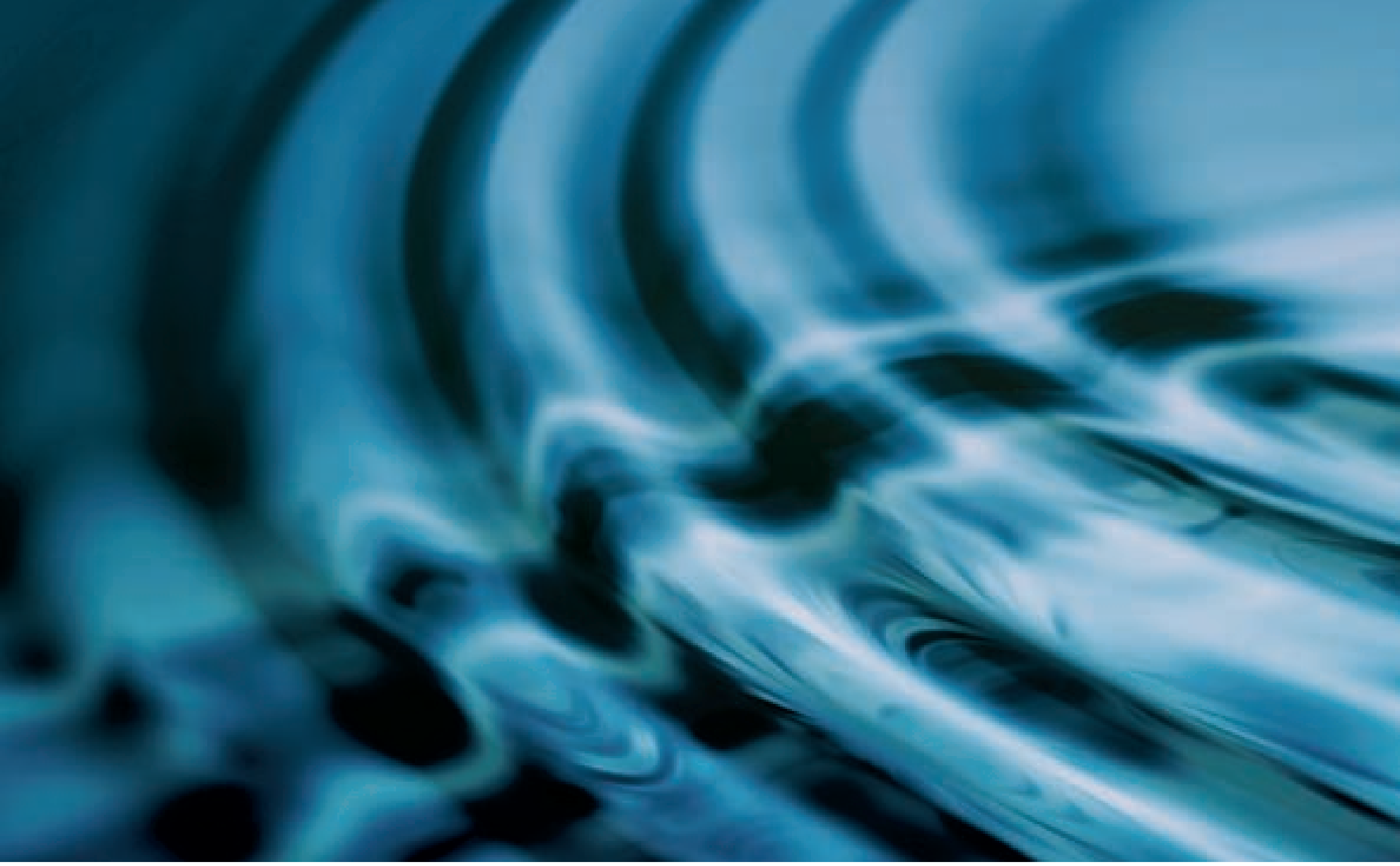
- Public Accounts actuarial report on Pension Act-related post-employment benefits for the Canadian Forces including war veterans;
- Ongoing advice to a range of federal departments and agencies including Treasury Board Secretariat, Justice, Judicial Compensation and Benefits Commission, Veterans Affairs Canada, Canadian Forces, members of the RCMP and Crown Corporations;
- Ongoing advice and support given to the CPP Investment Board, the Public Sector Pension Investment Board (PSP Investments) and the Pension Advisory Committees of the Public Service, the Canadian Forces and the RCMP;
- Annual presentation by the Chief Actuary to the OCA Consultation Committee, Joint Meeting of the Public Service, RCMP and Canadian Forces Pension Advisory Committees and PSP Investments, and also to the OSFI Audit Committee; and
- Work as Chair of the International Social Security Association (ISSA) Technical Commission on Statistical, Actuarial and Financial Studies.

The Chief Actuary provided remarks to the Senate Standing Committee on National Finance on the CPP and throughout the year he delivered presentations to a range of audiences including the European Institute at the Sovereign Funds Roundtable, the 15th International Conference of Social Security, Actuaries and Statisticians of ISSA, the 29th ISSA General Assembly, the C.D. Howe Institute, and at the Society of Actuaries Living to 100 Symposium (for a complete list of papers presented and conferences, see OSFI's Web site under Office of the Chief Actuary).

The OCA is continuously involved in preparing various experience studies and research covering a wide range of social security, demographic and economic issues that may affect the financial status of pension or benefits plans. Some of these studies also serve to support policymakers in developing and analysing various policy options in the context of plan reforms. The information presented in these studies could benefit private sector organizations that evaluate social security or private pension plan schemes.

In 2007-2008, the OCA maintained the tradition of continual improvements to the actuarial methods by applying more extensive and sophisticated stochastic analysis as was recommended by the CPP Peer Review Panel.

Michel Millette *Director, Office of the Chief Actuary*



Corporate Services

Linking Human Resources Planning to Business Planning

In 2007-2008, OSFI continued to improve the links between human resources planning and business planning, including the development of specific human resource and training strategies to support OSFI's business priorities. A major component is a formal deployment program that encourages employees to further hone their professional skills by experiencing different working environments within the organization. This will help ensure OSFI has people with the right skills and experience to meet the potential challenges of our financial sector. A total of 10 employees were successfully deployed, in what will become a bi-annual exercise.

Some staff resources were reallocated to create a new Ottawa-based supervisory team to assist the Toronto-based Financial Institutions Group with the workload created by the growing risk profiles across OSFI's regulated industries. In addition, new positions were budgeted for 2008-09 to increase capacity and complement targeted technical skills in anticipation of emerging risks.

During the year, sector management participated in quarterly reviews of HR plans. In support of this, an inventory was compiled of industry experience among Supervision employees as a planning aid. For example, this information will help identify where additional industry experience would be an asset and help to ensure an appropriate balance of external versus internal recruitment as OSFI staffs vacancies.

A compensation survey was completed indicating that, generally, OSFI's salary structure appropriately reflect salaries paid within the financial services industry.

Developing Staff

OSFI continues to place great importance on training and developing its employees. The organization-wide planning exercise helps identify staff development needs and we continue to implement effective strategic training initiatives to meet organizational learning needs. The 360-degree feedback of executive leadership skills continued in 2007-2008, in response to needs identified in a 2005 employee survey.

Toronto Accommodations

OSFI's Toronto office space lease in the financial district expires in February of 2009. We are currently working with Public Works and Government Services Canada on a needs assessment of future space requirements. As a significant increase in lease costs is anticipated, OSFI will implement smaller office standards, as was done for the Ottawa office in 2005. Reducing the total amount of rental space will mitigate the increase in lease costs.

Improving Internal Communication

Throughout 2007-2008, OSFI remained committed to strengthening the effectiveness of its internal communications. Existing programs such as employee orientation sessions, informal meetings with members of the executive team and town hall meetings continued to provide important opportunities for employees to share ideas and contribute to the organization. Enhancements to the Intranet are underway that should result in better access to key applications and tools.

In January 2008, employees from OSFI's four offices gathered in Huntsville, Ontario for a biennial employee conference. This year's theme was "New Beginnings."

Managing Risks to the Working Environment

OSFI enhanced security in a number of ways in 2007-2008. Committed to the security of its employees, assets and information, OSFI published and implemented a Corporate Security Policy, IT Security Policy and supporting standards. The delivery of security training and awareness sessions continued throughout the year to remind and inform employees of their security responsibilities while addressing any issues or concerns.

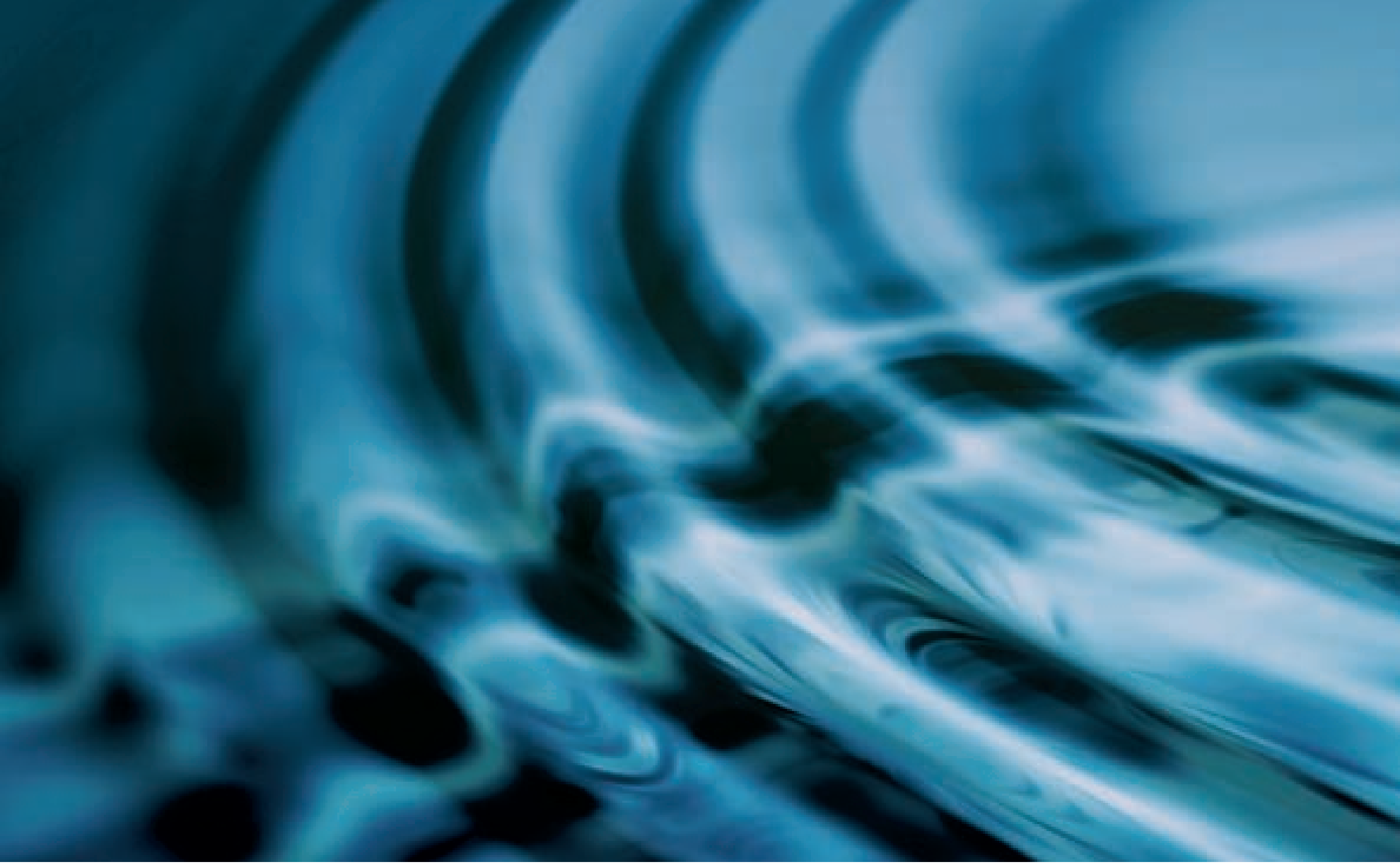
Risks identified in a series of threat and risk assessments, conducted in the previous fiscal year, were mitigated by implementing safeguards commensurate to the level of risk. Business Continuity Planning (BCP) was also on the agenda as OSFI conducted a table-top exercise. Designed to enable senior executives to test their capacity to execute their responsibilities and accountabilities while relocated to a simulated backup Emergency Command Centre, the exercise was very successful in replicating the challenges that would be incurred by the BCP team.

Enhancing Information Management

The Project and IM/IT Services Group continued to support the achievement of OSFI's long term priorities by the delivery of key priority projects and on-going implementation of its multi-year IM/IT strategy.

One of these key priority projects is the move to International Financial Reporting Standards (IFRS). This project was launched in 2007-2008 to determine the implications of the accounting changes for Canadian financial institutions and supervisors, including the implementation of implied changes to OSFI's data collection processes and its analytics and reporting capabilities. OSFI also began the Minimum Continuing Capital Surplus Requirement (MCCSR) project, which will result in the development of a more risk-based capital framework for life insurance companies. It may also lead to additional and/or enhanced data requirements and reporting and analytics capabilities.

With the implementation of Basel II in December 2007, OSFI is capturing and consolidating more data, providing detailed reporting capabilities to enhance our ability to respond quickly to changes in the financial sector. OSFI's core monitoring processes are further supported by the roll out of Business Intelligence technology. The Electronic Document Management System (EDMS) project (phase 3) was completed during the year, with EDMS now serving as the primary information sharing tool for all employees.



Financial Statements

Financial Review and Highlights

OSFI recovers its costs from several revenue sources. OSFI is funded mainly through asset-based, premium-based or membership-based assessments on the financial institutions and private pension plans that OSFI regulates and supervises, and a user-pay program for legislative approvals and other selected services.

The amount charged to individual institutions for OSFI's main activities of risk assessment and intervention (supervision), approvals and rule making is determined in several ways, according to formulas set out in regulations. In general, the system is designed to allocate costs based on the approximate amount of time spent supervising and regulating each industry. Costs are then assessed to individual institutions within an industry based on the applicable formula, with a minimum assessment for smaller institutions.

Problem (staged) institutions are assessed a surcharge on their base assessment, approximating the extra supervision resources required. As a result, well-managed, lower-risk institutions bear a smaller share of OSFI's costs.

OSFI also receives revenues for cost-recovered services. These include revenues from the Canadian International Development Agency (CIDA) for international assistance, revenues from provinces for which OSFI provides supervision of their institutions on contract, and revenues from other federal organizations to which OSFI provides administrative support.

Effective 2002-2003, OSFI began collecting late and erroneous filing penalties from financial institutions that submit late and/or erroneous financial and corporate returns. These penalties are billed quarterly, collected and remitted to the Consolidated Revenue Fund. By regulation, OSFI cannot use these funds to reduce the amount that it assesses the industry in respect of its operating costs.

The Office of the Chief Actuary is funded by fees charged for actuarial services relating to the Canada Pension Plan, the Old Age Security program, the Canada Student Loans Program and various public sector pension and benefit plans, and by a parliamentary appropriation.

Overall, OSFI fully recovered all its expenses for the fiscal year 2007-2008.

OSFI's total expenses were $86.5 million, a $3.2 million, or 3.9%, increase from the previous year. Human Resources costs, the main driver of OSFI's expenses, rose by $4.4 million, or 7.5%, as a result of the filling of vacancies, planned growth in employee compensation in accordance with collective agreements, and performance-related pay, which is available to employees at all levels within the organization.

OSFI's average number of full-time equivalent employees during the year was 459, a 2.9% increase from the previous year. OSFI ended the year with an actual head count of 467.

Federally Regulated Financial Institutions

Revenues

Total revenues from federally regulated financial institutions were $73.9 million, an increase of $2.6 million, or 3.6%, from the previous year. OSFI met its target, as communicated to the industry associations, of keeping the overall increase in base assessments under 7.8%. Base assessments on financial institutions increased by $3.9 million, or 6.1%, from the previous year.

Revenues for cost-recovered services decreased by $1.1 million, or 24.9%. The planned expiry, on October 31, 2007, of the Memoranda of Understanding with major banks for the implementation of the internal ratings-based approach of the New Capital Adequacy Framework (Basel II) accounted for $1.0 million of this decrease. Effective November 1, 2007, OSFI's ongoing Basel II costs were recovered through base assessments.

Revenues from user fees and charges decreased by $0.3 million, or 8.8%, from the previous year due to a different mix and volume of user-pay transactions.

Expenses

Total expenses were $73.5 million, an increase of $2.6 million, or 3.6%, from the previous year.

Human Resources costs rose as a result of the increase in average full-time equivalent employees and the planned growth in employee compensation. These costs were partially offset by lower Information Management/Information Technology (IM/IT) costs of $1.8 million, or 19.7%, due to the completion of major enabling technology projects in the first and third quarters of the fiscal year, namely the enhanced reporting and analytics (business intelligence) and Basel II projects.

Base Assessments by Industry

Base assessments are differentiated to reflect the share of OSFI's costs allocated to each industry group (base assessments are the costs allocated to an industry, less user fees and charges and cost-recovered services revenues). The chart below compares the growth of base assessments by industry group over the past five years.

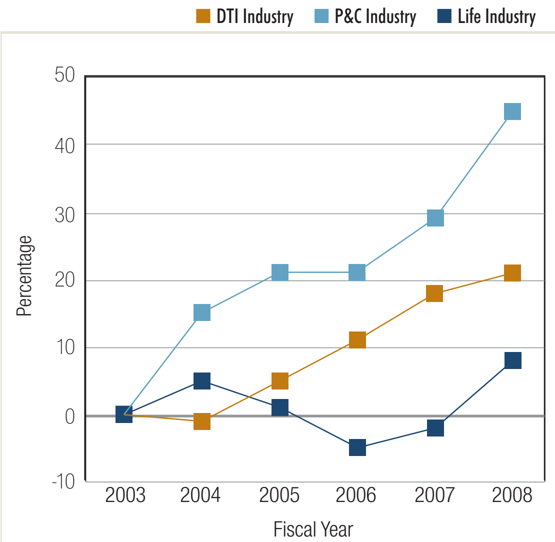
Assessments on the P&C industry over this period rose more than for other industries, reflecting an increase in OSFI's resources during 2004 and 2005 due to this sector's difficult economic conditions, and to OSFI's heightened efforts on actuarial and capital adequacy matters during 2007 and 2008.

The increase in base assessments on the deposit-taking industry during the period from 2005 to 2008 reflects OSFI's efforts on parts of the New Capital Adequacy Framework (Basel II) implementation, Anti-Money Laundering/Anti-Terrorism Financing (AML/ATF) activities, and international work on conceptual changes to accounting standards. In 2008, the expiry of the agreement with major banks related to the implementation of the internal ratings-based approach of the New Basel Capital Accord was a further contributing factor to the increase.

The decrease in assessments on the Life industry from 2005 to 2007 reflects the impact of consolidation among the major companies in this industry. The increase in 2008 is the result of OSFI's heightened effort on more frequent reporting on the conglomerate institutions in this sector, AML/ATF activities, and capital modeling.

During 2007 and 2008, two additional factors caused increases in base assessments on all industries: OSFI's investments in large IM/IT projects such as Business Intelligence for monitoring and analytics and International Financial Reporting Standards; and, significant shifts in revenue types, resulting from the rationalization of the user-pay regime in 2007 and a reduction in surcharge assessments due to the favourable economic conditions at that time.

Base Assessments by Industry
Cumulative Growth Rates from Fiscal Year 2003



Federally Regulated Private Pension Plans

Fees Assessed

OSFI's costs for regulating and supervising pension plans are recovered from an annual fee charged to plans, based on the number of plan members. Plans are assessed a fee upon applying for registration under the *Pension Benefits Standards Regulations, 1985* (PBSA) and upon filing their Annual Information Return. Total fees assessed during the fiscal year ended March 31, 2008, were $7.7 million, up from $5.4 million a year earlier.

The fee rate is established based on OSFI's estimate of current year costs to supervise pension plans, adjusted for any excess or shortfall of fees in the preceding years. The estimate is then divided by the anticipated assessable membership to arrive at a per member fee. The rate established for fiscal year 2007-2008 was $24.00 per assessable member, an increase of $7.50 from the previous year.

The excess or shortfall of fees in any particular year is amortized over five years in accordance with the fee formula set out in regulations. Prior to 2003-2004, accumulated surpluses had kept fee rates down; in 2003-2004 and 2004-2005, however, OSFI incurred unplanned expenses related to problem pension plans that depleted the surplus position. Subsequent fee rates have been set by regulation to recover the accumulated shortfall and the annual cost of administering the PBSA. The rate established for fiscal year 2008-2009 remains unchanged at $24.00 per assessable member.

Expenses

The cost of administering the PBSA for fiscal year 2007-2008 was $5.9 million, unchanged from the previous year. The growth in Human Resources costs, as a result of the filling of vacancies and planned growth in employee compensation, was offset by lower Professional Services and IM/IT costs. The Pensions Processes and Systems Renewal project, which commenced during 2006-2007, continued throughout the current year. This project is now structured into two distinct phases, the second of which is expected to be completed during 2009-2010.

Fees Assessed and Expenses
For Fiscal Years 2001-2002 to 2007-2008 ($000, except Basic Fee Rate)

Year	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008
Fees Assessed	3,332[1]	3,270	3,549	3,444	3,846	5,402	7,703
Expenses	3,439	3,163	4,322	4,919	5,442	5,875	5,876
Basic Fee Rate per Member[2]	11.00	10.00	11.00	11.00	12.00	16.50	24.00

1 Restated from $3,439 to report fees assessed on a cash basis.
2 The minimum and maximum annual assessment per plan is derived by multiplying the annual assessment by 20 and 10,000 respectively. With an annual assessment of $24.00 per member, the minimum annual assessment is $480 and the maximum is $240,000.

International Assistance

Expenses for International Assistance remained virtually unchanged from the previous year as minor increases in travel costs were offset by lower human resources costs resulting from short-term vacancies. This program is funded primarily by the Canadian International Development Agency (CIDA), from which three-quarters of the program costs are recovered. The balance of costs is funded by base assessments on federally regulated financial institutions.

Office of the Chief Actuary

The Office of the Chief Actuary is funded by fees charged for actuarial services and by an annual parliamentary appropriation. The increase in expenses of $0.7 million, or 14.4%, from the previous year is mainly attributed to planned growth in employee compensation, costs associated with the triennial review of the Canada Pension Plan, and a greater share of Corporate Services costs attributed to this program to reflect its full cost. This greater share was phased-in over a period of three years effective 2005-2006.

Management's Responsibility for the Financial Statements

Responsibility for the integrity and objectivity of the accompanying financial statements and the consistency with all other information contained in this annual report rests with the Office of the Superintendent of Financial Institutions' (OSFI's) management.

These financial statements, which include amounts based on management's best estimates as determined through experience and judgement, have been prepared in accordance with Canadian generally accepted accounting principles for the private sector. Management has developed and maintained books of accounts, records, internal controls, management practices, and information systems designed to provide reasonable assurance that assets are safeguarded and controlled, resources are managed economically and efficiently in the attainment of corporate objectives, and transactions are in accordance with the *Financial Administration Act* and regulations and with OSFI's policies and statutory requirements.

OSFI's Executive Committee oversees management's preparation of the financial statements and ultimately approves the financial statements and related disclosures. The Audit Committee reviews and discusses with management and the external auditor, OSFI's audited annual financial statements and all significant accounting estimates and judgements therein and recommends to the Superintendent the approval of the audited financial statements.

The Auditor General of Canada, the independent auditor for the Government of Canada, has audited the financial statements of OSFI and reports on her audit to the Minister of Finance.

Julie Dickson

Superintendent of Financial Institutions

Coleen Volk

Assistant Superintendent
Corporate Services

Ottawa, Canada
May 23, 2008

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Minister of Finance

I have audited the Balance Sheet of the Office of the Superintendent of Financial Institutions as at March 31, 2008 and the statements of operations and comprehensive income, accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the management of the Office of the Superintendent of Financial Institutions. 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 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 Office of the Superintendent of Financial Institutions as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Douglas G. Timmins, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 23, 2008

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

BALANCE SHEET

As at March 31, 2008 (in thousands of dollars)

	Note	2008	2007
ASSETS			
Assets			
Cash Entitlement		$ 36,333	$ 33,025
Accounts Receivable	6	4,894	5,500
Accrued Pension Plan Fees		1,398	3,225
Accrued Base Assessments		521	526
Capital Assets	5	13,871	13,694
TOTAL ASSETS		$ 57,017	$ 55,970
LIABILITIES AND EQUITY OF CANADA			
Liabilities			
Accrued Salaries and Benefits		$ 11,619	$ 12,950
Accounts Payable and Accrued Liabilities	6	5,740	5,815
Unearned Base Assessments		3,518	1,331
Other Unearned Revenue		638	1,055
Employee Future Benefits	7	7,964	7,281
		29,479	**28,432**
Equity Of Canada			
Contributed Surplus	14	28,327	28,327
Accumulated Deficit		(789)	(789)
		27,538	**27,538**
TOTAL LIABILITIES AND EQUITY OF CANADA		$ 57,017	$ 55,970
Contractual Obligations and Contingencies	13		

Julie Dickson

JULIE DICKSON
Superintendent of Financial Institutions

The accompanying notes are an integral part of the financial statements.

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended March 31, 2008 (in thousands of dollars)

	Note	2008	2007
Regulation and Supervision of Federally Regulated Financial Institutions			
Revenue	11	$ 73,860	$ 71,295
Expenses	11,12	73,451	70,874
Net Results before Filing Penalties Revenue		409	421
Filing Penalties Revenue	9	374	227
Filing Penalties Earned on Behalf of the Government	9	(374)	(227)
Net Results		409	421
Regulation and Supervision of Federally Regulated Private Pension Plans			
Revenue	11	5,876	5,875
Expenses	11,12	5,876	5,875
Net Results		–	–
International Assistance			
Revenue	11	1,566	1,568
Expenses	11,12	1,975	1,989
Net Results		(409)	(421)
Office of the Chief Actuary of Canada			
Revenue	11	4,338	3,787
Expenses	11,12	5,211	4,555
Net Results		(873)	(768)
NET RESULTS OF OPERATIONS BEFORE GOVERNMENT FUNDING		(873)	(768)
Government Funding	8	873	768
NET RESULTS OF OPERATIONS AND COMPREHENSIVE INCOME		$ –	$ –

The accompanying notes are an integral part of the financial statements.

STATEMENT OF ACCUMULATED DEFICIT

For the year ended March 31, 2008 (in thousands of dollars)

	2008	2007
ACCUMULATED DEFICIT, BEGINNING OF YEAR	$ (789)	$ (789)
Net Results of Operations and Comprehensive Income	–	–
ACCUMULATED DEFICIT, END OF YEAR	$ (789)	$ (789)

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

For the year ended March 31, 2008 (in thousands of dollars)

	Note	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Receipts from Financial Institutions, Pension Plans and Other Government Departments		$ 94,270	$ 85,361
Cash Paid to Suppliers and Employees		(87,633)	(81,682)
Insurance Company Liquidations (Net)	10	-	1,017
Filing Penalties Revenue Remitted to the Consolidated Revenue Fund	9	(374)	(227)
Net Cash Provided by Operating Activities		6,263	4,469
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of Capital Assets	5	(2,955)	(5,588)
Net Cash Used in Investing Activities		(2,955)	(5,588)
NET INCREASE (DECREASE) IN CASH ENTITLEMENT		3,308	(1,119)
CASH ENTITLEMENT AT BEGINNING OF YEAR		33,025	34,144
CASH ENTITLEMENT AT END OF YEAR		$36,333	$33,025

The accompanying notes are an integral part of the financial statements.

1. Authority and objectives

Mandate

The Office of the Superintendent of Financial Institutions (OSFI) was established by the *Office of the Superintendent of Financial Institutions Act* (OSFI Act) in 1987. Pursuant to the *Financial Administration Act* (FAA), OSFI is a department of the Government of Canada for the purposes of that Act and is listed in schedule I.1 of the Act.

In 1996, OSFI subsequently received a legislated mandate that clarified its objectives in the regulation and supervision of federal financial institutions and private pension plans. Under the legislation, OSFI's mandate is to:

- Supervise federally regulated financial institutions[1] (FRFIs) and private pension plans to determine whether they are in sound financial condition and meeting minimum plan funding requirements respectively, and are complying with their governing law and supervisory requirements;
- Promptly advise institutions and plans in the event there are material deficiencies and take, or require management, boards or plan administrators to take, necessary corrective measures expeditiously;
- Advance and administer a regulatory framework that promotes the adoption of policies and procedures designed to control and manage risk;
- Monitor and evaluate system-wide or sectoral issues that may impact institutions negatively.

In meeting this mandate, OSFI contributes to public confidence in the financial system.

The Office of the Chief Actuary provides a range of actuarial services, under the *Canada Pension Plan Act* and the *Public Pensions Reporting Act* to the Canada Pension Plan (CPP) and some federal government departments, including the provision of advice in the form of reports tabled in Parliament.

In addition, OSFI supports initiatives of the Canadian government to assist selected emerging market economies to strengthen their regulatory and supervisory systems. This program incorporates activities related to providing help to other selected countries that are building their supervisory and regulatory capacity. This program is largely funded by the Canadian International Development Agency, and is carried out directly by OSFI and through its participation in the Toronto International Leadership Centre for Financial Sector Supervision.

1 A federally regulated financial institution is any entity that has been created or is allowed to offer financial services pursuant to one of the financial institution statutes promulgated by the federal government and includes banks, trust and loan companies, federally registered insurance companies, fraternal benefit societies, cooperative credit associations, and pension plans.

2. Revenue and spending authority

Pursuant to Section 17 of the OSFI Act, the Minister of Finance may spend any revenues collected under Sections 23 and 23.1 of the OSFI Act to defray the expenses associated with the operation of OSFI. The Act also establishes a ceiling for expenses at $40 million above the amount of revenue collected.

OSFI's revenues comprise assessments, service charges and fees. The expenses against which assessments may be charged include those in connection with the administration of the *Bank Act*, the *Cooperative Credit Associations Act*, the *Green Shield Canada Act*, the *Insurance Companies Act*, and the *Trust and Loan Companies Act*. The formula for the calculation of assessments is included in regulations.

The *Pension Benefits Standards Act, 1985* (PBSA, 1985) provides that fees may be charged for the registration and supervision of private pension plans and for the supervision, including inspection, of registered pension plans. The amount of the fees is set annually by regulation pursuant to Section 39 of the PBSA, 1985.

Section 23.1 of the OSFI Act provides that the Superintendent may assess against a person a prescribed charge ("service charge") and applicable disbursements for any service provided by or on behalf of the Superintendent for the person's benefit or the benefit of a group of persons of which the person is a member. "Person" includes individuals, corporations, funds, unincorporated associations, Her Majesty in Right of Canada or of a province, and a foreign government. The service charges are detailed in the regulations.

Pursuant to Section 16 of the OSFI Act, Parliament has provided annual appropriations to support the operations of the Office of the Chief Actuary.

3. Change in accounting policies

a) Adoption of new accounting standards

On April 1, 2007, OSFI adopted the following new Canadian Institute of Chartered Accountants (CICA) Handbook Sections 1530, "*Comprehensive Income*"; 3251, "*Equity*"; 3855, "*Financial Instruments – Recognition and Measurement*"; and 3861, "*Financial Instruments – Disclosure and Presentation*". These sections provide standards for recognition, measurement, disclosure and presentation of other comprehensive income, equity, financial assets, financial liabilities, derivatives and non-financial derivatives. These standards require retrospective application without prior period restatement with any transitional adjustments being recorded in opening accumulated deficit, and as a result comparative financial statements have not been restated. As at April 1, 2007, no transitional adjustments had been made to the opening balance of OSFI's accumulated deficit arising from the adoption of these new sections. The principal changes in the accounting resulting from the adoption of these new standards are described below.

Section 3855 – "*Financial Instruments – Recognition and Measurement*", establishes the criteria for recognition, derecognition, measurement, and classification of financial instruments. Under the new standard, all financial instruments are classified into one of the following categories: financial assets as held for trading, held-to-maturity, available-for-sale, or as loans and receivables, and financial liabilities as held for trading, or as other financial liabilities. In accordance with the transitional provisions, upon initial recognition, financial assets and financial liabilities are required to be measured at their fair value. Subsequent measurement and changes in fair value will depend on their initial classification or designation which depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition. Held for trading financial instruments are subsequently measured at fair value and all gains and losses are recognized in net results in the period in which they arise. Available-for-sale financial instruments are subsequently measured at fair value with revaluation gains and losses included in other comprehensive income until the instrument is derecognized or impaired at which time the amounts would be recognized in net results. Financial assets held-to-maturity, loans and receivables, and other liabilities are measured subsequently at amortized cost.

As a result of the adoption of these standards, OSFI has designated its cash and cash equivalents as held-for-trading. Accounts receivable are classified as loans and receivables, and accounts payable and accrued liabilities are classified as other financial liabilities. The classification chosen did not result in any transitional adjustments under section 3855.

Upon adoption of section 3855, OSFI reviewed all contracts that were issued and outstanding as at March 31, 2008. No embedded derivatives that require separation were identified.

Section 1530, "*Comprehensive Income*", describes reporting and disclosure requirements with respect to comprehensive income and its components. Comprehensive income is composed of OSFI's net results and other comprehensive income, and requires certain unrealized gains and losses resulting from changes in fair value of certain financial instruments, that would otherwise be recorded as part of net results, to be presented in other comprehensive income until such time that the financial instruments are derecognized. At that time, any related balance in other comprehensive income is recognized in net results.

The adoption of this Section had no accounting impact on OSFI, as there have been no transactions resulting in other comprehensive income.

Section 3251, "*Equity*", establishes standards for the presentation of equity and changes in equity for a reporting period as a result of the application of Section 1530, Comprehensive Income.

The adoption of this section had no impact on OSFI's equity presentation since there have been no transactions resulting in other comprehensive income or changes in equity.

b) Future accounting changes

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535 "*Capital Disclosures*"; Handbook Section 3862 "*Financial Instruments – Disclosures*"; Handbook Section 3863 "*Financial Instruments – Presentation*". These standards are effective for OSFI's reporting period beginning on April 1, 2008. Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The new Handbook Sections 3862 and 3863 replace Handbook Section 3861 "*Financial Instruments – Disclosure and Presentation*", revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

OFSI is currently assessing the impacts of these standards on the financial statements.

4. Significant accounting policies

a) Basis of presentation

The financial statements of OSFI have been prepared in accordance with Canadian generally accepted accounting principles for the private sector.

b) Revenue recognition

OSFI matches its revenue to its operating costs. Any amounts that have been billed and for which costs have not been incurred are classified as unearned revenue on the balance sheet. Revenue is recorded in the accounting period in which it is earned whether or not it has been billed or collected. At March 31 of each year, amounts may have been collected in advance of the incurrence of costs or, alternatively, amounts may be owed to OSFI.

Base assessments are billed annually based on an estimate of the current fiscal year's operating costs (an interim assessment) together with a final accounting of the previous year's assessment for actual costs incurred. Assessments are calculated prior to December 31 of each year, in accordance with Section 23(1) of the OSFI Act and the *Assessment of Financial Institutions Regulations, 2001*.

Cost-recovered services represent revenue earned from services provided in accordance with the terms and conditions set out in specific Memoranda of Understanding.

Pension plan fees are earned from registered pension plans. Fee rates are set annually by regulation based on budgeted expenses, forecast pension plan membership and actual results from previous years. Pension plan fees are charged in accordance with the *Pension Benefits Standards Regulations, 1985*.

User fees and charges include revenue earned pursuant to the *Charges for Services Provided by the Office of the Superintendent of Financial Institutions Regulations 2002* - as amended from time to time - in respect of legislative approvals and approvals for supervisory purposes, and surcharges assessed to federally regulated financial institutions assigned a "stage" rating pursuant to the Guide to Intervention for Federal Financial Institutions. Assessment surcharges are charged in accordance with the *Assessment of Financial Institutions Regulations, 2001*.

Filing penalties are penalties levied quarterly to financial institutions when they submit late and/or erroneous financial and corporate returns due to OSFI during the preceding calendar quarter. Penalties levied are not available to reduce the net costs that OSFI assesses the industry (i.e., they are non-respendable) and are remitted to the Consolidated Revenue Fund. Filing penalties are charged in accordance with the *Administrative Monetary Penalties (OSFI) Regulations*.

c) Cash entitlement

OSFI does not have its own bank account. The financial transactions of OSFI are processed through the Consolidated Revenue Fund (CRF) of Canada. OSFI's cash entitlement represents the amount OSFI is entitled to withdraw from the CRF without further authority. This amount does not earn interest.

d) Capital assets

Capital assets are recorded at historical cost less accumulated amortization. Amortization is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Assets	Useful Life
Leasehold Improvements	Remaining life of the lease
Furniture and Fixtures	7 years
Office Equipment	4 years
Informatics Hardware	3 years
Informatics Infrastructure (Networks)	3 years
Informatics Software	5 years

Amortization of Informatics Software under Development commences in the month in which the capital asset is put into service.

e) Employee future benefits

(i) Pension benefits

OSFI's eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. Supplementary retirement benefits may also be provided in accordance with the *Special Retirement Arrangements Act*. Pension benefits accrue on pensionable service at a rate of 2 per cent per year up to a maximum period of 35 years, times the average of the best five consecutive years of earnings. The benefits are integrated with the Canada/Québec Pension Plan benefits and they are indexed to inflation.

Both the employees and OSFI contribute to the cost of the Plan. OSFI's responsibility with regard to the Plan is limited to its contributions. Actuarial liabilities are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

(ii) Severance benefits

On termination of employment, employees are entitled to certain benefits provided for under their conditions of employment through a severance benefits plan. The cost of these benefits is accrued as the employees render their services necessary to earn severance benefits and represents the only obligation of OSFI for severance benefits.

The cost of benefits is actuarially determined as at March 31 of each year using the projected benefit method prorated on services. The valuation of the liability is based upon a current market discount rate and other actuarial assumptions, which represent management's best long-term estimates of factors such as future wage increases and employee resignation rates. The excess of any net actuarial gain (loss) over 10% of the benefit obligation is amortized over the average remaining service period of active employees.

(iii) Other future benefits

The federal government sponsors a variety of other future benefit plans from which employees and former employees may benefit during employment or upon retirement. The Public Service Health Care Plan and the Pensioners' Dental Service Plan are the two major plans available to OSFI employees and retirees. OSFI's responsibility with regard to these two plans is limited to its contributions.

f) Specified purpose account for insurance company liquidations

OSFI has an interest-bearing, specified purpose account (note 10) within the Consolidated Revenue Fund for insurance company liquidations. Prior to amendments to the *Winding-up and Restructuring Act*, OSFI acted as liquidator of failed insurance companies when appointed by Court Order. Under these circumstances, the Superintendent hired agents to carry out the liquidation work in each case. Section 23.3 of the *Winding-Up and Restructuring Act*, which came into force in 1996, established that the Superintendent can no longer be appointed as liquidator of a failed institution.

In its capacity as liquidator, OSFI pays, on behalf of the remaining active institutions, all expenses related to the liquidation, and then recovers these costs from active institutions pursuant to the *Insurance Companies Act*. Where liquidated companies distribute assets to the Superintendent, these assets are distributed back to the remaining active institutions that paid the costs of liquidation. Accordingly, the revenues and expenses, recoveries and distributions related to this account are not included in the Statement of Operations and Comprehensive Income.

g) Use of estimates

These financial statements are prepared in accordance with Canadian generally accepted accounting principles, which require that OSFI management makes estimates and assumptions that affect the amounts reported in these financial statements. Liabilities related to human resources, employee future benefits, and the useful lives of capital assets are the most significant items for which estimates are used. Actual results could significantly differ from those estimates.

h) Contingencies

Where it is likely that a contingency existing at the financial statement date will result in a loss, OSFI accrues its financial effects to the extent that the amount of the loss is known or can be reasonably estimated.

5. Capital assets

($ thousands)	Gross Book Values			Accumulated Amortization			Net Book Values	
Categories	Opening Balance	Additions (net)	Closing Balance	Opening Balance	Amortization Expense (net)	Closing Balance	2008	2007
Leasehold Improvements	$ 5,417	$ 50	$ 5,467	$ 1,272	$ 616	$ 1,888	$ 3,579	$ 4,145
Furniture and Fixtures	3,997	49	4,046	1,785	475	2,260	1,786	2,212
Office Equipment	348	36	384	252	55	307	77	96
Informatics Hardware	1,991	617	2,608	1,391	450	1,841	767	600
Informatics Infrastructure	2,185	236	2,421	1,644	341	1,985	436	541
Informatics Software	11,310	1,392	12,702	5,210	841	6,051	6,651	6,100
Informatics Software under Development	-	575	575	-	-	-	575	-
Total	$25,248	$2,955	$28,203	$11,554	$2,778	$14,332	$13,871	$13,694

6. Related party transactions

OSFI is related, in terms of common ownership, to all Government of Canada departments, agencies and Crown corporations. OSFI enters into transactions with these entities in the normal course of business and on normal trade terms. These transactions are measured at the exchanged amount, which is the amount of consideration established and agreed to by the related parties.

OSFI recorded expenses of $18,643 thousand (2007: $19,268 thousand) and revenue of $7,206 thousand (2007: $7,795 thousand) from transactions with other government departments during the year.

As at March 31, accounts receivable and payable with other government entities and unrelated external parties were as follows:

($ thousands)		Related Parties	External Parties	Total
2008	Accounts Receivable	$ 126	$ 4,768	$ 4,894
	Accounts Payable and Accrued Liabilities	690	5,050	5,740
2007	Accounts Receivable	1,963	3,537	5,500
	Accounts Payable and Accrued Liabilities	2,299	3,516	5,815

7. Employee future benefits

a) Pension benefits

OSFI and all eligible employees contribute to the Public Service Pension Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. The estimated employer contributions to the Public Service Pension Plan during the year were $5,967 thousand (2007: $5,442 thousand).

As required under present legislation, the contributions made by OSFI to the Plan are 2.02 times the employees' contribution on amounts of salaries of $130,700 or less and 7.3 times the employees' contribution on amounts of salaries in excess of $130,700.

b) Severance benefits

Information about OSFI's severance benefit plan is presented in the table below.

($ thousands)	2008	2007
Accrued Benefit Obligation, beginning of year	$ 7,661	$ 7,681
Current service cost	683	649
Interest cost	333	325
Benefits paid	(333)	(733)
Actuarial (gain)/loss	285	(261)
Accrued Benefit Obligation, end of year[1]	8,629	7,661
Unamortized Net Actuarial Loss	(665)	(380)
Accrued Benefit Liability	$ 7,964	$ 7,281
Net Benefit Plan Expense		
Current service cost	683	649
Interest cost	333	325
Benefit Expense	$ 1,016	$ 974

1 The cost corresponding to annual changes in the accrued benefit liability is recovered from OSFI's various sources of revenue outlined in Note 4 to the financial statements. Amounts collected in excess of benefits paid are presented on the Balance Sheet under the heading of Cash Entitlement.

The significant actuarial assumption adopted in measuring OSFI's accrued benefit obligation is a discount rate of 4.25% (2007: 4.25%). For measurement purposes, management's best estimate for the general salary increases to estimate the current service cost and the accrued benefit obligation as at March 31, 2008 is an annual economic increase of 2.5% for the plan years 2009 and 2010 inclusively (2007: 2.0% for the plan year 2008). Thereafter, an annual economic increase of 2.0% is assumed (2007: 2.0%). The average remaining service period of active employees covered by the benefit plan is 12 years (2007: 12 years).

8. Government funding

OSFI receives an annual parliamentary appropriation pursuant to Section 16 of the OSFI Act to support its mandate relating to the Office of the Chief Actuary. In this fiscal year, OSFI was granted $873 thousand (2007: $768 thousand).

9. Filing penalties

Filing penalties levied by OSFI are remitted to the Consolidated Revenue Fund. The funds are not available for use by OSFI and are not included in the balance of the Cash Entitlement. As a result, the penalties do not reduce the amount that OSFI assesses the industry in respect of its operating costs.

During 2007-2008, OSFI levied $374 thousand (2007: $227 thousand) in late and erroneous filing penalties.

10. Specified purpose account for insurance company liquidations

The following activity occurred in this account:

($ thousands)	2008	2007
Opening Balance	$ -	$ 1,017
Recoveries deposited	35	-
Interest earned	1	38
Distribution of assets from liquidated estates	(36)	(1,055)
Closing Balance	$ -	$ -
Remaining insurance company liquidations under control of the Superintendent	5	6

11. Segmented information

Revenue by Business Activity

($ thousands)	2008					2007				
	Base Assessments	Cost-Recovered Services	Pension Plan Fees	User Fees and Charges	TOTAL	Base Assessments	Cost-Recovered Services	Pension Plan Fees	User Fees and Charges	TOTAL
Regulation and Supervision of Federally Regulated Financial Institutions	$ 67,807	$ 3,273	$ -	$ 2,780	**$ 73,860**	$ 63,890	$ 4,357	$ -	$ 3,048	**$ 71,295**
Regulation and Supervision of Federally Regulated Private Pension Plans			5,876		**5,876**			5,875		**5,875**
International Assistance		1,566			**1,566**		1,568			**1,568**
Office of the Chief Actuary		4,317		21	**4,338**		3,643		144	**3,787**
TOTAL REVENUE	$ 67,807	$ 9,156	$ 5,876	$ 2,801	$85,640	$ 63,890	$ 9,568	$ 5,875	$ 3,192	$ 82,525

Expenses by Business Activity

($ thousands)	2008	2007
Regulation and Supervision of Federally Regulated Financial Institutions		
Risk Assessment and Intervention	$ 51,630	$ 49,440
Rule Making	14,421	14,448
Approvals	7,400	6,986
Total	73,451	70,874
Regulation and Supervision of Federally Regulated Private Pension Plans	5,876	5,875
International Assistance	1,975	1,989
Office of the Chief Actuary		
Canada Pension Plan and Old Age Security	1,887	1,488
Public Pension Plans	2,620	2,457
Canada Student Loans Program	704	610
Total	5,211	4,555
TOTAL EXPENSES	$ 86,513	$ 83,293

12. Revenue and expenses by major classification

For the year ended March 31

($ thousands)	2008	2007	2006	2005	2004
Revenue					
Base Assessments	$ 67,807	$ 63,890	$ 60,878	$ 60,171	$ 58,166
Cost-Recovered Services	9,156	9,568	8,624	7,629	7,140
Pension Plan Fees	5,876	5,875	5,442	4,867	4,322
User Fees and Charges	2,801	3,192	5,222	5,943	6,762
Total Revenue Earned from Respendable Sources	85,640	82,525	80,166	78,610	76,390
Expenses					
Human Resources	63,010	58,632	55,254	57,448	55,801
Information Management/Technology	7,605	9,546	10,418	7,972	8,129
Facilities	6,470	6,615	6,247	5,789	5,109
Travel	3,487	3,311	3,333	2,998	2,860
Administration	3,098	2,750	2,623	2,512	2,444
Professional Development	1,424	1,461	1,551	1,062	1,254
Professional Services	1,419	978	1,495	1,553	1,683
Total Expenses	86,513	83,293	80,921	79,334	77,280
Net Results of Operations before Non-Respendable Filing Penalties Revenue and Government Funding	(873)	(768)	(755)	(724)	(890)
Government Funding	873	768	755	724	890
Filing Penalties Revenue	374	227	805	365	211
Filing Penalties Earned on Behalf of Government	(374)	(227)	(805)	(365)	(211)
Net Results of Operations and Comprehensive Income	$ -	$ -	$ -	$ -	$ -
Average Number of Employees	459	446	434	453	466

13. Contractual obligations and contingencies

a) Contractual obligations

OSFI has entered into lease agreements for office space and office equipment in four locations across Canada. The minimum aggregate annual payments for future fiscal years are as follows:

($ thousands)	
2008-2009	$4,707
2009-2010	2,472
2010-2011	2,250
2011-2012	2,075
2012-2013	2,066
	$13,570

b) Contingencies

In its normal course of operations, OSFI is involved in claims and litigation for which provisions have been made to the extent determinable, in accordance with accounting policy note 4 h).

14. Contributed Surplus

OSFI was established on July 2, 1987 by the OSFI Act. OSFI was created through the merger of its two predecessor agencies – the Department of Insurance and the Office of the Inspector General of Banks. To help fund OSFI's first year of operations and establish a pool of working capital necessary to support its annual assessment and expenditure cycle, OSFI was credited with the assessments that recovered the costs of its predecessors for the previous fiscal year. This amount is reflected as contributed surplus.

15. Comparative figures

Certain 2007 comparative figures have been reclassified to conform to the presentation adopted in 2008.

Appendix 1

Financial Institutions and Pension Plans Regulated by OSFI

	Number[1]	Assets[2, 3] ($ Millions)
Banks		
Domestic	20	2,596,712
Foreign Bank Subsidiaries	24	139,523
Foreign Bank Branches	29	79,191
Trust and Loan Companies		
Bank-owned	31	243,163
Other	39	23,292
Cooperative Credit Associations	7	17,877
Cooperative Retail Association	1	3,275
Life Insurance Companies		
Canadian-incorporated	46	456,440
Foreign Branches	48	15,275
Fraternal Benefit Societies		
Canadian-incorporated	10	5,809
Foreign Branches	8	1,775
Property and Casualty Insurance Companies		
Canadian-incorporated	96	78,256
Foreign Branches	100	30,873
Pension Plans	1,350	131,765

1 Number of regulated companies as at March 31, 2008. Includes institutions in the process of liquidation or termination and institutions limited to servicing existing business. A list of institutions regulated by OSFI can be found on OSFI's Web site under "Who We Regulate".
2 As at January 31 or March 31, 2008 (depending on fiscal year-end) where available, otherwise December 31, 2007.
3 Total assets of the industries regulated by OSFI are not the simple sum of the above-noted figures. The figures for entities that report on a consolidated basis include subsidiaries whose assets may also be included in a different category.

Appendix 2

Asset Breakdown[1] of Pension Plans Regulated by OSFI

As at March 31, 2008, with comparative figures for the year ended March 31, 2007

		2008		2007
Cash	**331**	**0.3%**	**402**	**0.3%**
Debt Securities				
Short Term Notes, Other Term Deposits	5,515	4.2%	4,619	3.6%
Government Bonds	26,702	20.3%	27,244	21.0%
Corporate Bonds	8,713	6.6%	7,153	5.5%
Mutual Funds - Bonds, Cash Equivalent & Mortgage	9,244	7.0%	7,915	6.1%
Mortgage Loans	969	0.7%	986	0.8%
General Fund of an Insurer	125	0.1%	131	0.1%
Total Debt Securities	**51,268**	**38.9%**	**48,048**	**37.1%**
Equity				
Shares in Investment, Real Estate or Resource Corporation	6,185	4.7%	6,646	5.1%
Common and Preferred Shares	46,938	35.6%	51,415	39.7%
Stock Mutual Funds	12,448	9.4%	14,274	11.0%
Real Estate Mutual Funds	802	0.6%	475	0.4%
Real Estate	2,637	2.1%	1,610	1.3%
Total Equity	**69,010**	**52.5%**	**74,420**	**57.5%**
Diversified and Other Investments				
Balanced Mutual Funds	6,146	4.7%	3,148	2.4%
Segregated Funds	2,532	1.9%	1,853	1.4%
Miscellaneous Investments	2,373	1.8%	1,552	1.2%
Total Diversified and Other Investments	**11,051**	**8.3%**	**6,553**	**5.0%**
Other Accounts Receivables (net of liabilities)	**105**	**0.1%**	**157**	**0.1%**
TOTAL NET ASSETS	**131,765**	**100.0%**	**129,580**	**100.0%**

1 Represents asset distribution as reported in the financial statements of pension plans whose year-end falls between January 1 and December 31 of respective years.

How to Reach OSFI

OSFI welcomes questions about its role and responsibilities as well as enquiries related to federally regulated pension plans. Several methods are available to communicate with us.

Toll-free Information Service

OSFI operates a toll-free information service from 8:30 a.m. to 6:00 p.m. Eastern Time, Monday through Friday.
It can be reached by calling **1 800 385-8647** or 613-943-3950 for local (Ottawa-Gatineau) calls.
E-mail: **extcomm@osfi-bsif.gc.ca**.

Internet

OSFI's Web site address is **www.osfi-bsif.gc.ca**. The site provides timely access to a wide variety of OSFI information and documents, including speeches, news releases, guidelines, legislation, policy statements, bulletins, financial information and a listing of all financial institutions and pension plans regulated by OSFI.

Publications

OSFI publications are generally available on our Web site (www.osfi-bsif.gc.ca) or by contacting:

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