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Export Development Canada | Exportation et développement Canada

CANADA ACCOUNT ANNUAL REPORT

FOR THE GOVERNMENT OF CANADA YEAR ENDED MARCH 31, 2019

Canada

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Overview

Under Section 23 of the *Export Development Act* ("the Act"), the Government of Canada (the "Government" or the "Crown") is able to authorize support for transactions which, on the basis of Export Development Canada's ("EDC" or the "Corporation") risk management practices, would not be supported under EDC's Corporate Account but are in the national interest. Such transactions are referred to as Canada Account transactions. The Government effectively assumes the associated financial risks for Canada Account transactions by providing all monies required for any transaction from the Consolidated Revenue Fund ("CRF"). However, Canada Account transactions are assessed, entered into and managed by EDC, and are structured the same as Corporate Account transactions in that, for example, loans are fully repayable, are subject to interest and fees and policies are subject to premiums and fees. Canada Account transactions can consist of transactions or classes of transactions that EDC has the power to enter into pursuant to Section 10 of the Act, including business in all of EDC's product categories (financing, credit insurance, financial institutions insurance, contract insurance and bonding, and political risk insurance).

Authority

Pursuant to Section 23 of the Act, the Minister of International Trade ("the Minister"), with the concurrence of the Minister of Finance, may authorize EDC to undertake certain financial and contingent liability transactions. Transactions exceeding $50 million or those of a sensitive nature are first referred to Cabinet for approval-in-principle. Section 23 of the Act also authorizes EDC to undertake debt restructurings on behalf of the Government for Canada Account transactions, in the same manner that the Corporation manages its Corporate Account.

Section 24(1) of the Act allows Canada Account to have up to an aggregate of $20 billion in contingent liabilities (i.e.: insurance policies, guarantees and other contingent arrangements), outstanding commitments to borrowers and outstanding principal amounts owed by borrowers. (See Management's Discussion and Analysis, Position against Statutory Limit). All monies required by the Corporation to discharge its obligations under Canada Account are paid to the Corporation by the Minister of Finance, out of the CRF. Such monies are accounted for separately and do not impinge on the Corporation's borrowing limits.

Risk Management

EDC provides financial services that allow Canadian exporters and investors to manage the risks they face while doing business internationally. In doing so, EDC does assume risks and must prudently manage these risks to ensure its long-term financial viability. In a transaction where one or more of these risks (including country risk, credit risk, interest rate risk or the size of the transaction) are considered beyond the risk capacity of the Corporation and inconsistent with ensuring its long-term financial viability, the Government may authorize EDC to undertake the transaction and effectively assume those risks itself provided that the transaction is in the national interest of Canada. In considering its authorization, the Government relies on EDC's risk assessment of the transaction. For each transaction, the Government sets aside an allowance for potential losses in the fiscal framework. Allowances are adjusted annually by the Government for all financial exposures based on the risks associated with the transaction (country, credit rating, value of collateral, etc). In accordance with the Government's accounting policies, the value of loans and advances made under Canada Account are adjusted in its financial statements by an allowance for credit losses to approximate their net realizable value.

Management

At the initial stages of a transaction that is eligible for Canada Account support, EDC seeks Ministers' approval-in-principle. Such approval allows the Corporation to indicate possible support to a company conditional on final approval of the Government. In the late stage, when the funding and the parameters of a transaction have been established, EDC seeks Ministerial Authorization to make a firm offer and/or to enter into an agreement.

Upon receipt of a Ministerial Authorization, EDC is responsible for coordinating and administering the transaction, which includes the execution of legal documents, the requesting and disbursement of funds and management of the repayment flows. EDC is required to maintain separate accounts for all disbursements, receipts and recoveries. All such receipts and recoveries are to be remitted to the CRF. However, under the Act, the Minister of Finance may authorize EDC to retain certain amounts from receipts and recoveries to meet expenses and overhead related to these transactions (see Note 6). The Minister of International Trade, with the concurrence of the Minister of Finance, may also authorize EDC to take certain actions necessary or desirable for the management of assets and liabilities arising out of transactions.

EDC has entered into a Memorandum of Understanding with Global Affairs Canada which provides the mechanism whereby funding requests and remittances are made by EDC to the Government.

Eligibility

Canada Account transactions must meet EDC's mandate to support and develop, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities. Under Canada Account, the Government of Canada is able to support transactions that exceed the financial or risk capacity of EDC under its Corporate Account, but are deemed to be in the national interest.

In most cases, a transaction will first be considered and rejected by EDC under its Corporate Account prior to it being referred to the Minister of International Trade for consideration under Canada Account. The Government may request that EDC manage a transaction under Canada Account as was the case for the support provided to the automotive sector in 2009.

In addition to falling within EDC's mandate, the eligibility considerations applied to transactions considered under Canada Account include:

- EDC's customary lending or insurance criteria (Canadian benefits, financial and technical capability of the exporter, technical and commercial viability of the project, creditworthiness of the borrower);
- The Government's general willingness to consider the country risk in question and the creditworthiness of borrowers; and
- National interest considerations such as:
    - economic benefits and costs to Canada, including the employment and revenues generated or sustained by the transaction;
    - importance of the export market to Canada; and
    - foreign policy implications, including Canada's bilateral relationship with the country in question.

Policy on Concessional Financing

It is the policy of the Government that concessional financing (interest-free or low-interest rates and/or extended repayment-term financing), which in the past has been provided under Canada Account to match such financing available from other countries, is no longer to be provided. Nevertheless, Canada retains the right to offer matching terms within the parameters agreed upon in the Organization for Economic Co-operation and Development (OECD) "Arrangement on Guidelines for Officially Supported Export Credits", to ensure, where appropriate, that Canadian companies are not competitively disadvantaged by offers of such terms by other countries.

Disclosure

Information on current transactions is posted on EDC's website (https://www.edc.ca/en/about-us/corporate/disclosure.html) in accordance with the Corporation's Disclosure Policy.

Fiscal Year

All data contained in this report is presented on the basis of the Government's fiscal year which ends on March 31 and will therefore not directly compare to EDC's Annual Report, Corporate Plan and other corporate documents, which are prepared on a calendar-year basis.

Management's Discussion and Analysis

Highlights

The following are highlights of Canada Account activity during the fiscal year 2018-2019.

New Ministerial Authorizations were signed for the following:

- Allowing for financing of $7 billion related to the Trans Mountain Pipeline which includes a term loan of up to $5 billion for a term of up to five years, a term loan of up to $1 billion for a term of up to one year, and financing in the form of a loan/and or guarantee of up to $1 billion for a term of up to five years. Subsequent to year-end, a new Ministerial Authorization was signed increasing the second term loan to an available amount of $4 billion for up to four years.

- Allowing for the facilitation of financing to Canadian clean technology producers for up to $444 million. Subsequent to March 31, 2019, a loan agreement for $30 million was signed under this Ministerial Authorization.

- Allowing for financing of up to $18 million to Arctic Gateway Group Limited, of which, $10 million disbursed in the fourth quarter and has a term of up to 30 years. This financing was exceptionally provided on concessional terms given the special national interest of restoring the railway line to Churchill, Manitoba.

- Allowing for the write-off of aerospace industry loans of $196 million.

Other highlights for the fiscal year 2018-2019 are:

- We recorded a provision for credit losses on loans and loan guarantees of $81 million mainly due to decreased collateral values for loans in the aerospace industry, in addition to provisioning requirements on new financing activity in the year.

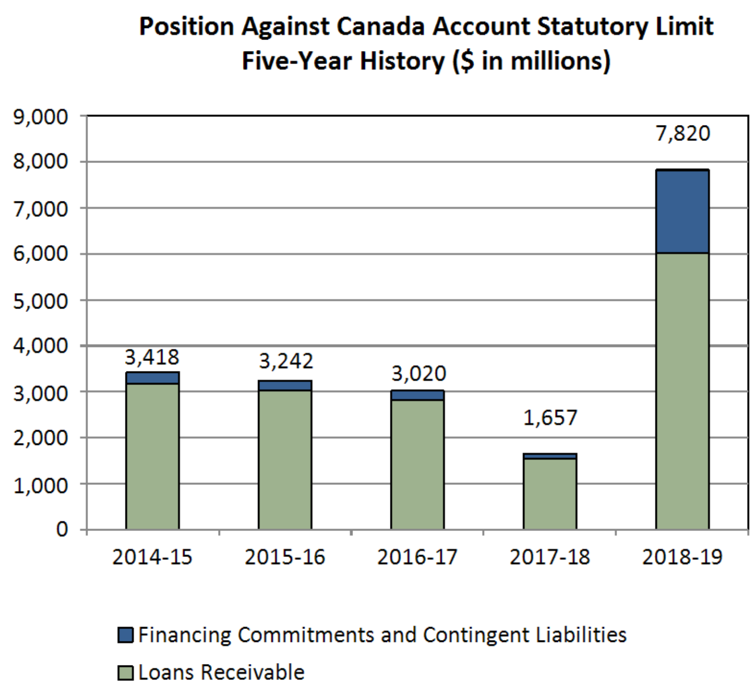
- Remittances of principal, interest, premiums and fees, net of expenses, totalling $797 million were made to the CRF by EDC.

Position against Statutory Limit

Section 24 of the Export Development Act allows Canada Account to have up to an aggregate of $20 billion in contingent liabilities (i.e. insurance policies, guarantees and other contingent arrangements), outstanding loan commitments to borrowers and outstanding principal amounts of obligations owed to the Corporation. The position against this limit as at March 31, 2019 was $7,820 million (March 31, 2018 - $1,657 million). Details of this position are as follows:

(in millions of Canadian dollars)	**Mar 2019**	Mar 2018
Loans Receivable		
Concessional	**599**	950
Non-concessional	**5,414**	599
	6,013	1,549
Financing Commitments and Contingent Liabilities		
Loan commitments	**1,718**	-
Loan guarantees	**76**	98
Credit insurance	**13**	10
	1,807	108
Position Against Statutory Limit	**$7,820**	$1,657

Five-Year Summary



The increase in the position against Canada Account Statutory Limit in 2018-2019 is mainly due to loan facilities related to the Trans Mountain Pipeline, while the decrease in position for 2017-2018 is primarily due to loan write-offs in the automotive industry and loan repayments.

Concentration of Exposure

The following table reflects the country exposure where the risk resided as at March 31, 2019:

(in millions of Canadian dollars)						**Mar 2019**		Mar 2018	
Country	**Concessional Loans Receivable**	**Non-Concessional Loans Receivable**	**Loan Commitments**	**Loan Guarantees**	**Credit Insurance**	**Total**	**%**	Total	%
Canada	**10**	**4,790**	**1,718**	**-**	**-**	**6,518**	**83**	-	-
United States	**-**	**421**	**-**	**-**	**-**	**421**	**5**	712	43
China	**371**	**-**	**-**	**-**	**-**	**371**	**5**	379	23
Iraq	**-**	**103**	**-**	**-**	**-**	**103**	**2**	110	7
Turkey	**86**	**-**	**-**	**-**	**-**	**86**	**1**	86	5
Romania	**-**	**-**	**-**	**76**	**-**	**76**	**1**	98	6
Morocco	**68**	**-**	**-**	**-**	**-**	**68**	**1**	68	4
Argentina	**-**	**65**	**-**	**-**	**-**	**65**	**1**	92	6
Other *	**64**	**35**	**-**	**-**	**13**	**112**	**1**	112	6
Total	**$599**	**$5,414**	**$1,718**	**$76**	**$13**	**$7,820**	**100**	$1,657	100

Exposure by Currency

(in millions of Canadian dollars)				**Mar 2019**				Mar 2018
Currency	**Amount**	**CAD Equiv.**	**Exchange Rate**	**%**	Amount	CAD Equiv.	Exchange Rate	%
CAD	**6,646**	**6,646**	**-**	**85**	162	162	-	10
USD	**878**	**1,174**	**1.3362**	**15**	1,160	1,495	1.2884	90
Total		**$7,820**		**100**		$1,657		100

The overall CAD exposure increased in the year primarily due to loan facilities related to the Trans Mountain Pipeline.

Commercial and Sovereign Exposure

(in millions of Canadian dollars)			**Mar 2019**			Mar 2018
	Commercial	**Sovereign**	**Total**	Commercial	Sovereign	Total
Loans Receivable						
Concessional	**10**	**589**	**599**	-	599	599
Non-concessional	**422**	**4,992**	**5,414**	712	238	950
	432	**5,581**	**6,013**	712	837	1,549
Financing Commitments and Contingent Liabilities						
Loan commitments	**8**	**1,710**	**1,718**	-	-	-
Credit insurance	**13**	**-**	**13**	10	-	10
Loan guarantees	**-**	**76**	**76**	-	98	98
	21	**1,786**	**1,807**	10	98	108
Total	**$453**	**$7,367**	**$7,820**	$722	$935	$1,657
Percentage	**6%**	**94%**	**100%**	44%	56%	100%

The increase in sovereign exposure was primarily due to loan facilities related to the Trans Mountain Pipeline.

The following chart provides an additional breakdown of the commercial and sovereign exposure by industry and country:

(in millions of Canadian dollars)		**Mar 2019**		Mar 2018
	Total	**%**	Total	%
Commercial (by industry):				
Aerospace	**270**	**4**	566	34
Automotive	**152**	**2**	146	9
Resources	**18**	**-**	-	-
Extractive	**13**	**-**	10	1
	453	**6**	722	44
Sovereign (by country):				
Canada	**6,500**	**83**	-	-
China	**371**	**5**	379	23
Iraq	**103**	**1**	110	7
Turkey	**86**	**1**	86	5
Romania	**76**	**1**	98	6
Morocco	**68**	**1**	68	4
Other	**163**	**2**	194	11
	7,367	**94**	935	56
Total	**$7,820**	**100**	$1,657	100

The decrease in areospace exposure is due to loan write-offs as provided by a Ministerial Authorization. The increase in Canada exposure is due to loan facilities related to the Trans Mountain Pipeline.

Debt Forgiveness/Debt Relief for Sovereign Loans Receivable

In 1996, the International Monetary Fund and the World Bank proposed that relief be given on the external debt of some of the world's most Heavily Indebted Poor Countries (HIPCs). This initiative was approved by member governments including Canada. The exposure relates to agreements in place prior to 1996. At March 31, 2019, Canada Account had loans receivable exposure eligible for debt relief or debt reduction to one HIPC totalling $12.4 million or 0.17% of the sovereign loan portfolio (March 31, 2018 – $12.0 million or 1.3%).

Loan Receivable by Interest Type

(in millions of Canadian dollars)			**Mar 2019**			Mar 2018
	Fixed	**Floating**	**Total**	Fixed	Floating	Total
Concessional	**591**	**8**	**599**	592	7	599
Non-concessional	**5,102**	**312**	**5,414**	622	328	950
Total	**$5,693**	**$320**	**$6,013**	$1,214	$335	$1,549
Percentage	**95%**	**5%**	**100%**	78%	22%	100%

The largest contributor to the increase in the non-concessional fixed rate portfolio were the loans related to the Trans Mountain Pipeline.

Cash Flow Realized on Loans

The following table provides a summary of the interest and fees received on Canada Account loans. These cash flows were remitted to the CRF during the fiscal year net of the administration charge. Almost all the revenue generated from interest receipts originates from non-concessional loans; as concessional loans have either low or zero interest rates.

(in millions of Canadian dollars)			**Mar 2019**			Mar 2018
	Average annual principal balance	**Interest cash flow**	**%**	Average annual principal balance	Interest cash flow	%
Concessional*	**589**	**-**	**0.00%**	614	3	0.40%
Non-concessional	**3,846**	**103**	**2.69%**	1,802	23	1.30%
Total	**$4,435**	**$103**	**2.68%**	$2,416	$26	1.69%

** Balance of less than $0.05 million has been rounded to zero.*

The increase in the average principal balances was primarily due to new financing activity in the fiscal year related to the Trans Mountain Pipeline.

Financial Arrangements Facilitated

In the fiscal year-ended March 31, 2019, Canada Account facilitated four loans on behalf of the Government of Canada. There were three loans signed in the second quarter relating to the Trans Mountain Pipeline transaction, including a term loan of up to $5 billion for a term of up to five years; a term loan of up to $1 billion for a term of up to one year, and financing in the form of a loan and/or guarantee of up to $1 billion for a term of up to five years. The guarantee option was then replaced by a term loan of up to $500 million for a term of up to five years. The fourth loan which was signed in the fourth quarter, to Arctic Gateway Group Limited, is a term loan of up to $10 million, including an additional $8 million of notional advances provided through the deferral of annual interest payments, for a term of up to 30 years.

For the fiscal year ending March 31, 2018, there were no financial arrangements facilitated greater than $1 million to report.

Canada Account Financial Statements

Statement of Receivables

as at *(in millions of Canadian dollars)*	**Mar 2019**	Mar 2018
Loans receivable (Note 3)	**6,013**	1,549
Allowance for credit losses on loans *	**(197)**	(337)
Allowance for credit losses on accrued interest and fees	**(224)**	(185)
Unamortized discount on concessionary loans	**(388)**	(408)
Accrued interest and fees	**265**	191
Total	**$5,469**	$810

** Includes allowance for losses on contingent liabilities of $444K (2018 - $1M)*

Statement of Financing Commitments and Contingent Liabilities

as at *(in millions of Canadian dollars)*	**Mar 2019**	Mar 2018
Loan commitments (Note 6)	**1,718**	**-**
Loan guarantees (Note 7)	**76**	**98**
Credit insurance	**13**	**10**
Total	**$1,807**	$108

Statement of Revenue and Expenses

for the year ended *(in millions of Canadian dollars)*	**Mar 2019**	Mar 2018
Revenue		
Loan interest and guarantee fees	**175**	37
Gain on foreign currency translation	**42**	-
Amortization of discount	**20**	24
Total Revenue	**237**	61
Expenses		
Provision (reversal) for credit losses on loans and loan guarantees	**81**	**(96)**
Loss on foreign currency translation	**-**	**60**
Administrative charges (Note 5)	**7**	**6**
Total Expenses	**88**	(30)
Net Income	**$149**	$91

Statement of Cash Flow (to)/from the Consolidated Revenue Fund

for the year ended *(in millions of Canadian dollars)*	**Mar 2019**	Mar 2018
Remittances to CRF by EDC		
Principal	**(701)**	(247)
Interest, premiums and fees	**(103)**	(26)
Administrative charges	**7**	6
Total remitted to CRF	**($797)**	($267)
Received from CRF by EDC		
Principal	**5,300**	-
Total received from CRF	**$5,300**	$-
Net cash received (remitted) to the CRF	**$4,503**	($267)

Note: All funds received by EDC in respect of Canada Account transactions (loan repayments, interest payments, fees, premium payments, etc.) are remitted by EDC to the CRF net of the expenses and overhead of the Corporation arising out of those transactions.

Notes to the Financial Statements

Note 1. Mandate and Authority

EDC is established for the purposes of supporting and developing, directly or indirectly, Canada's export trade, domestic trade and Canadian capacity to engage in either of these trades and to respond to international and domestic business opportunities. Pursuant to Section 23 of the Act, the Minister, with the concurrence of the Minister of Finance, may authorize the Corporation to undertake certain financial and contingent liability transactions that are considered to be in the national interest. These transactions or classes of transactions and the legislative authorities that underlie them have come to be known collectively as the "Canada Account". Such transactions can include business in all of EDC's product categories (financing, credit insurance, financial institutions insurance, contract insurance and bonding, and political risk insurance) other than investments. The Corporation is responsible for ensuring that Canada Account transactions are administered appropriately. Accounts for these transactions are maintained separately from the Corporation's accounts and are consolidated annually as at March 31 with the financial statements of the Government, which are reported upon separately by the Government and audited by the Auditor General of Canada.

The Act allows Canada Account to have up to an aggregate of $20 billion in contingent liabilities (i.e. insurance policies, guarantees and other contingent arrangements), outstanding commitments to borrowers and outstanding principal amounts owed by borrowers. The position against this limit, determined in accordance with the requirements of the Act, was $7,820 million at March 31, 2019 (March 31, 2018 - $1,657 million).

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

The balances presented in the Canada Account financial statements are recorded in accordance with Public Sector Accounting Standards.

Loans Receivable

Loans receivable are carried at historical cost and include capitalized interest and fees.

Accrued interest is recorded on the contractual basis of the underlying loan. It includes accrued interest and fee revenue on all loans, including loans in default and/or those where there is no expectation of collectability.

Loan interest income is recorded on an accrual basis for the purposes of presentation in the Statement of Revenue and Expenses. It includes accrued interest and fee revenue on all loans, with the exception of loans in default where collectability is not reasonably assured.

Consolidated information presented in the *Public Accounts of Canada* is prepared in accordance with criteria outlined in the Receiver General Manual (Chapter 15 – Public Accounts Instructions) and excludes amounts of capitalized interest and fees from total loans receivable.

Translation of Foreign Currency

All loans receivable, loan commitments, contingent liabilities and claims paid and outstanding denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the end of the reporting period. Income and expenses are translated at either daily or monthly average exchange rates in effect during the year. Exchange gains and losses resulting from the translation of foreign currency balances and transactions are recognized in the income statement during the fiscal year.

Note 3. Loans Receivable

(in millions of Canadian dollars)			**Mar 2019**			Mar 2018
Fiscal	**Concessional**	**Non-Concessional**	**Total**	Concessional	Non-Concessional	Total
Past Due	**-**	**169**	**169**	-	160	160
2018/19	**-**	**-**	**-**	32	205	237
2019/20	**33**	**304**	**337**	32	405	437
2020/21	**33**	**73**	**106**	32	80	112
2021/22	**33**	**34**	**67**	32	23	55
2022/23	**33**	**24**	**57**	32	14	46
2023/24	**33**	**4,695**	**4,728**	32	15	47
2024/25	**33**	**25**	**58**	32	15	47
2025/26	**33**	**68**	**101**	32	15	47
2026/27 and beyond	**366**	**24**	**390**	343	18	361
Total	**$597**	**$5,416**	**$6,013**	$599	$950	$1,549

Note 4. Past Due Receivables

The following table provides a breakdown of principal, interest and fees in arrears at the end of the fiscal year.

(in millions of Canadian dollars)			**Mar 2019**			Mar 2018
	Commercial	**Sovereign**	**Total**	Commercial	Sovereign	Total
Past due principal	**154**	**15**	**169**	146	14	160
Past due interest and fees	**-**	**201**	**201**	-	177	177
Total	**$154**	**$216**	**$370**	$146	$191	$337

Note 5. Canada Account Administrative Charges

Pursuant to Section 23(5) of the Act, the Corporation is authorized by the Minister of Finance to retain from any receipts and recoveries an amount, as the Minister of Finance considers to be required, to meet the expenses and overhead of the Corporation arising out of Canada Account transactions. In 2018-2019, $6 million (2017-2018 – $3 million) was retained to meet the general expenses and overhead of the Corporation arising out of Canada Account transactions. Additionally, Canada Account incurred $1 million (2017-2018 - $3 million) of other expenses, of which $1 million (2017-2018 - $2 million) were legal expenses.

Note 6. Financing Commitments

Financing commitments consist of loan commitments which are immediately available to the obligor for drawdown subject to adherence to contractual covenants established under the financing agreements.

Note 7. Canada Account Guarantees

Loan guarantees are issued to cover non-payment of principal, interest and fees due to banks and financial institutions providing loans to borrowers. Calls on guarantees result in the recognition of a loan asset on the balance sheet and become a direct obligation of the borrower.

Glossary of Financial Terms

Accrued Interest - Interest earned but not yet received under a loan or other interest-bearing instrument calculated from the later of the disbursement date or the date of the last interest payment.

Concessional Loans - Loans which are interest free or at below-market interest rates and/or have extended repayment terms.

Contingent Liability - Potential debt which arises from past events and may become an actual obligation if certain events occur or fail to occur. Contingent liability is also referred to as insurance policies and guarantees outstanding.

Credit Insurance - An insurance policy that protects insured Canadian businesses from commercial and political risks related to export transactions with credit terms of up to 360 days.

Contract Insurance and Bonding - Insurance and bonding solutions that provide coverage for risks inherent in performance-related obligations, including performance security guarantees, foreign exchange guarantees and surety bond insurance.

Debt Reduction - An agreement whereby some or all of a country's sovereign debt obligations are forgiven/ deferred for payment at a later date.

Financial Institutions Insurance - Insurance provided to Canadian financial institutions that covers their foreign bank and foreign buyer counterparty risk in trade transactions.

Financing - An arrangement that has the effect of extending credit or providing an undertaking to pay money.

Loan Guarantee - An undertaking that the payment of a debt obligation shall be duly met. A guarantee is a contingent liability for the guarantor.

Investments - The ownership interest EDC may hold in an entity via venture capital and private equity investments.

Loan Commitments - The portion of a loan that has been offered and accepted but not yet disbursed.

Notes Receivable - Notes receivable represent promissory notes issued and due from the borrower in an aggregate amount equal to 6.67% of the loans in the automotive industry. These notes accrue interest which is payable at each interest payment due date or capitalized to the remaining note balance.

Political Risk Insurance - An insurance that protects the insured from specific political risks including: transfer of funds, expropriation, war, revolution or insurrection. It covers investments made in the form of equity, loans, guarantees, assets and services.

Public Accounts of Canada - The report of the Government, prepared each fiscal year by the Receiver General in which the transactions of all departments and agencies are summarized.

Sovereign Loans - Loans for which the financial and repayment risk is that of a sovereign government.
are recognized in the income statement during the fiscal year.