MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) should be read in conjunction with our audited consolidated financial statements and related notes for the year ended December 31, 2021.

All amounts are expressed in Canadian dollars.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This document contains projections and other forward-looking statements regarding future events. Such statements require us to make assumptions and are subject to inherent risks and uncertainties. These may cause actual results to differ materially from expectations expressed in the forward-looking statements.

ECONOMIC OVERVIEW

The global economy made progress in 2021, posting 5.9% growth. Following the sharpest decline ever recorded in 2020, most countries grew at an accelerated pace in 2021. As availability increased, vaccination rates picked up rapidly in many advanced countries. New COVID-19 variants kept healthcare systems stretched and economies from fully recovering. Governments cautiously scaled-back support programs, household savings accumulated, and consumer spending picked up resulting in more purchases of durable goods. Global supply chains continue to face immense pressures with limited resources and soaring demand. Shortages of key inputs including lumber, metals and semiconductors are pushing prices to record levels. Global oil prices have more than fully recovered as activity resumed. In response, central banks have either ended balance sheet expansion or announced a targeted stop to asset purchases, with some raising rates. However, the new Omicron variant is a key risk to the short-term outlook as infection rates remain at high levels. Many countries re-enacted public health measures toward the end of the year. Unfortunately, the strong but uneven recovery lost speed with a resurgence of infections and severe labour shortages.

The United States economy is recovering, with employment and labour force participation improving but still below pre-pandemic levels. U.S. real GDP growth is estimated to have grown by 5.6%. The Federal Reserve began to wind down its quantitative easing programs and maintained their key policy interest rate at the target range of 0% to 0.25%. The U.S. consumer is leading G7 durable goods spending fueled by massive accumulated savings. This is driving inflation to multi-decade highs.

Europe's economy experienced GDP growth in 2021 of 5.2%, despite the wide spread of COVID-19 cases and lower manufacturing output. The Bank of England raised its policy rate in December 2021. In Asia, strict COVID-19 containment policies and regional outbreaks dampened manufacturing output and contributed to major delays.

Canada's economy expanded by 4.7% in 2021. Supply-chain shortages weakened Canada's trade in automobiles and the ability to meet durable goods demand. However, merchandise exports had another year of strong momentum, growing by approximately 11% in nominal terms, but services remain well below pre-pandemic levels. The Bank of Canada was among the first to scale back its asset purchase programs as the economy improved, while keeping its policy rate at its effective lower bound. New COVID-19 variants have kept employment, exports, and consumer spending from reaching a full recovery more quickly. The Canadian housing market is still experiencing higher price growth due to sustained demand. The Canadian dollar has appreciated since the start of the pandemic and averaged 80 cents per U.S. dollar in 2021.

A number of measures were announced by the Government of Canada starting in March 2020 to increase our capacity to help Canadian companies facing financial challenges brought on by the global response to COVID-19. These measures include the activation of the Business Credit Availability Program (BCAP) which increases business volumes in the commercial financing and insurance programs through our existing suite of financial solutions, and the expansion of our domestic capabilities to enable us to help Canada's financial institutions provide financing and credit solutions to Canadian businesses, helping even more companies raise the credit necessary to survive this unprecedented crisis.

Due to the improving economic environment, EDC's allowance for credit losses in the loan portfolio decreased 34% to $1.9 billion in 2021. Improvements in our macroeconomic forecast and the impacts of net repayments in our loan portfolio contributed to a decrease in allowance requirements. In addition, the net premiums and claims liabilities for our insurance programs decreased by $110 million largely due to the reduction in the COVID-19 risk adjustment partly offset by changes in portfolio composition. The improving economic environment also contributed to the strong market performance experienced in our equity investments portfolio which had realized and unrealized gains of $706 million in 2021.

FINANCIAL RESULTS OVERVIEW

Our net income for the year was $2,287 million compared to net loss of $1,352 million in 2020.

for the year ended December 31 *(in millions of Canadian dollars)*	**2021**	2020
Net financing and investment income	**1,211**	1,223
Net insurance premiums and guarantee fees[1]	**349**	285
Realized gains[2]	**315**	116
	1,875	1,624
Administrative expenses	**619**	556
Provision for (reversal of) credit losses	**(554)**	2,083
Net claims-related expenses (recovery)	**(51)**	416
Income (loss) before unrealized gains	**1,861**	(1,431)
Unrealized gains on financial instruments[2]	**(426)**	(79)
Net income (loss)	**$ 2,287**	$ (1,352)

[1] *Includes loan guarantee fees.*

[2] *Included in Other (Income) Expenses on the Consolidated Statement of Comprehensive Income.*

Items of note were as follows:

Reversal of provision for credit losses of $554 million in 2021 compared to a provision for credit losses of $2,083 million in 2020. The reversal of provision for credit losses in 2021 was primarily due to improving economic conditions as the economy emerges from the COVID-19 pandemic, net loan repayments and a change in the loss given default model for our aerospace portfolio.

Net insurance premiums and guarantee fees increased by $64 million compared to the prior year primarily due to the COVID-19 support being available for a full year in 2021 compared to being partially available in 2020 as a result of the timing of the pandemic. The COVID-19 support contributed to increases in loan guarantee fees and insurance premiums in our credit insurance and international trade guarantee solutions. Our credit insurance solution also had additional business undertaken in the wholesale & retail trade and manufacturing sectors which contributed to the overall increase.

Realized gains on financial instruments were $315 million in 2021, an increase of $199 million compared to the prior year, mainly due to strong performance and the level of maturity in our private equity and venture capital investment portfolio.

Unrealized gains on financial instruments were $426 million in 2021, an increase of $347 million compared to the prior year, mainly due to the volatility associated with our financial instruments carried at fair value through profit or loss. This included unrealized gains of $381 million as a result of strong performance in our investments portfolio.

Net claims-related recovery of $51 million compared to net claims-related expense of $416 million in 2020 mainly due to a reduction in the allowance for claims on insurance primarily as a result of a decrease in the COVID-19 risk adjustment partially offset by changes in portfolio composition.

Administrative expenses increased $63 million from the prior year as we embarked on a strategic transformation where our primary focus is to help medium sized exporters scale and grow their international success. In addition, we are creating and implementing a new digitally enabled operating model for micro and small exporters that will allow us to further extend our reach and effectiveness in understanding and meeting their needs to drive better trade outcomes for Canada. These objectives require significant investment in a number of areas including the enhancement of our digital capabilities. This resulted in higher human resource costs and professional services in 2021. Furthermore, additional resources were also required in order to support our programs in response to the COVID-19 pandemic.

Impact of Foreign Exchange Translation on Financial Results

The Canadian dollar relative to the U.S. dollar ended the year at $0.79, consistent with the rate at the end of 2020. Our assets and liabilities are primarily denominated in U.S. dollars and are translated to Canadian dollars at rates prevailing at the Consolidated Statement of Financial Position date. Our business facilitated and the components of net income are translated into Canadian dollars at average exchange rates. The Canadian dollar averaged $0.80 against the U.S. dollar in 2021 compared to $0.75 for 2020.

Comparative Figures

During the third quarter of 2021, EDC implemented the North American Industry Classification System (NAICS). The objective of the system is to improve and give greater uniformity to the structure and presentation of supporting financial information through a widely used and accepted industry classification system. This new classification of industries resulted in the reclassifications of comparative information within the MD&A and the Notes to the Consolidated Financial Statements.

FINANCIAL PERFORMANCE

Net Financing and Investment Income

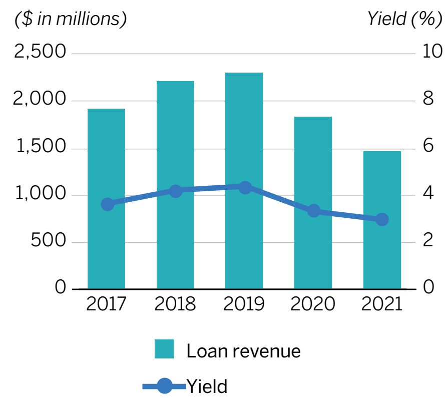
Loan Revenue

Loan revenue was $1,462 million in 2021, a decrease of $368 million from 2020 primarily due to a decrease in loan yields and a decrease in the overall size of the loan portfolio.

The total loan yield was 2.95%, a decrease of 35 basis points compared to the previous year primarily due to lower U.S. interest rates. U.S. rates had been cut rapidly and significantly by the U.S. Federal Reserve as part of its support package to help stabilize the economy throughout the COVID-19 pandemic.

The average carrying balance of our loans receivable decreased 11% in 2021 mainly due to net loan repayments and foreign exchange translation, as well as principal recoveries from loan sales undertaken to reduce our exposure in carbon intense industries.

Loan Revenue

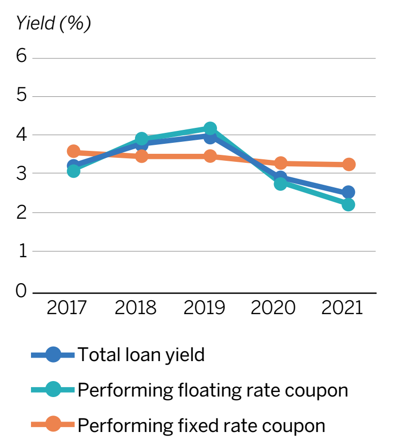


Components of the change in loan revenue from 2020

(in millions of Canadian dollars)	**2021**
Decrease in revenue from lower yield	**(221)**
Decrease in portfolio size	**(108)**
Foreign exchange impact	**(56)**
Decrease in performing loan interest revenue	**(385)**
Increase in loan fee revenue	**12**
Increase in impaired revenue	**5**
Net change in loan revenue	**$ (368)**

For a breakdown of loan interest yield on our fixed and floating rate portfolios, refer to Table 1 in Supplemental Information.

Total Performing Loan Yield



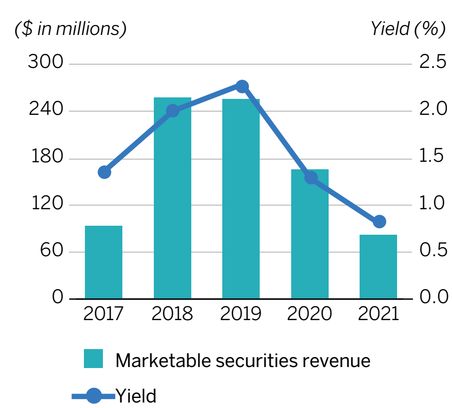
Marketable Securities Revenue

We maintain a marketable securities portfolio in order to meet our liquidity requirements.

Our marketable securities revenue consists of income earned on short-term instruments, bonds and government securities held during the year.

Marketable securities revenue was $82 million in 2021, a decrease of $83 million from the prior year mainly due to a decrease in yields. The portfolio is mainly sensitive to short-term U.S. Treasury rates, as these rates continued to decrease in 2021, the yield on our marketable securities portfolio decreased from 1.28% in 2020 to 0.80% in 2021.

Marketable Securities Revenue



Components of the change in marketable securities revenue from 2020

(in millions of Canadian dollars)	2021
Decrease in revenue from lower yield	(60)
Decrease in portfolio size	(17)
Foreign exchange impact	(6)
Net change in marketable securities revenue	$ (83)

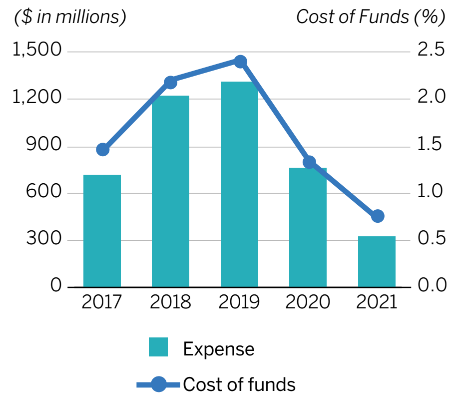
Interest Expense

Our interest expense includes the cost of our debt and related derivatives. Interest expense totalled $324 million in 2021, a decrease of $436 million from 2020 mainly as a result of a lower cost of funds as well as a lower average portfolio size.

Our cost of funds decreased from 1.34% to 0.73% primarily due to a decrease in average yields for the year as a result of lower global interest rates in response to the COVID-19 pandemic. Debt yields on our floating rate portfolio have also declined to 0.40% in 2021 from 1.18% in 2020.

The average balance of our debt and derivatives decreased by $12.4 billion in 2021 largely as a result of the capital injection received in the fourth quarter of 2020.

Interest Expense



Components of the change in interest expense from 2020

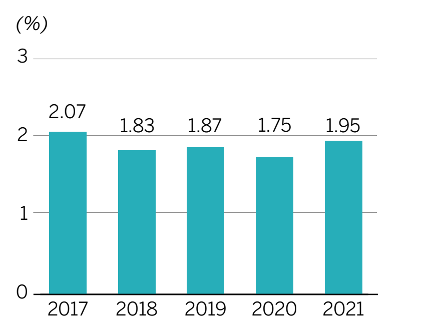
(in millions of Canadian dollars)	2021
Decrease in expense from lower cost of funds	(342)
Decrease in portfolio size	(68)
Foreign exchange impact	(26)
Net change in interest expense	$ (436)

Net Finance Margin

The net finance margin represents net financing and investment income expressed as a percentage of average income earning assets. Net financing and investment income consists of loan, marketable securities and investment revenues net of interest expense and financing related expenses.

The net finance margin for 2021 was 1.95%, an increase of 20 basis points compared to the prior year. While both the average balance of our loans receivable portfolio and our debt portfolio were lower in 2021 impacting both loan revenue and interest expense, the decline for our debt portfolio was larger mainly due to the capital injection received as previously discussed. In addition, the decline in interest rates impacted our cost of funds more rapidly than our revenue due to timing.

Net Finance Margin



For a breakdown of net finance margin, refer to Table 2 in Supplemental Information.

Net Insurance Premiums and Guarantee Fees

Net premium and guarantee fee revenue earned in our insurance program totalled $252 million in 2021, an increase of $22 million compared to 2020. The increase primarily reflects the business conducted with small and medium sized enterprises (SMEs) through our COVID-19 pandemic support, as well as additional business undertaken for our credit insurance and international trade guarantee solutions.

Net insurance premiums and guarantee fees earned under our international trade guarantee solution totalled $115 million, an increase of $16 million from 2020 largely due to our response to the COVID-19 pandemic in the resources, manufacturing, utilities and construction sectors.

Net insurance premiums earned under our credit insurance solution totalled $123 million, an increase of $11 million from 2020 mainly due to increased activity in the wholesale & retail trade and manufacturing sectors.

For the breakdown of insurance premiums and guarantee fees, refer to Table 3 in Supplemental Information.

Other (Income) Expenses

Other income in 2021 totalled $741 million compared to $195 million in 2020.

(in millions of Canadian dollars)	2021	2020
Net realized (gains) losses		
Investments	(325)	(24)
Marketable securities	(27)	(102)
Sale of loan assets	37	10
Foreign exchange translation	2	(2)
Other	(2)	2
Total net realized (gains) losses	(315)	(116)
Net unrealized (gains) losses		
Investments	(381)	(204)
Marketable securities	177	(114)
Loans payable	(508)	395
Derivatives	286	(137)
Fair value adjustments on loan disbursements	–	(19)
Total net unrealized (gains) losses	(426)	(79)
Total	$ (741)	$ (195)

We use a variety of financial instruments, including derivatives, to manage our interest rate and foreign exchange risk. Our marketable securities, derivatives and the majority of our loans payable are held at fair value, whereas our loans receivable are held at amortized cost. As a result of the differing accounting treatment, fluctuations in market rates result in unrealized gains and/or losses on those instruments carried at fair value, resulting in volatility in other (income) expenses. In 2021, we recorded net unrealized gains of $45 million compared to unrealized losses of $144 million in 2020. Refer to page 101 for further discussion on our derivatives.

Within our Equity Investments portfolio, we recorded realized gains of $325 million (2020 – $24 million) and unrealized gains of $381 million (2020 – $204 million) in 2021. These increases are primarily due to strong market performance and the level of maturity in our private equity and venture capital investments portfolio. The realized gains were primarily related to direct investments that either had an initial public offering or were acquired during the year while the unrealized gains were primarily experienced in our fund portfolio as a result of strong market conditions that resulted in higher fair values.

Net realized and unrealized losses in our marketable securities portfolio were $150 million in 2021 compared to net realized and unrealized gains of $216 million in 2020 mainly due to increases in market rates used to value the portfolio.

Provision for (Reversal of) Credit Losses

We recorded a reversal of provision for credit losses of $554 million related to our loan portfolio in 2021 primarily due to improving economic conditions as the economy emerges from the COVID-19 pandemic, net loan repayments and a change in the loss given default model for our aerospace portfolio. The reversals were partially offset by new impairments in the commercial properties and transportation and storage industries. In 2020 the impact of the downward credit migration due to the COVID-19 pandemic resulted in a provision charge of $2,083 million.

(in millions of Canadian dollars)	2021	2020
Remeasurements(1)	(245)	1,778
Updated loss given default models(1)	(107)	219
New originations(2)	292	612
Net repayments and maturities(2)	(494)	(526)
Provision for (reversal of) credit losses	$ (554)	$ 2,083

(1) Refer to Note 5 of the consolidated financial statements.

(2) Represents provision requirement (release) as a result of repayments, performing loan sales, disbursements and new financing commitments.

Activity by industry within the provision for credit losses during the year was as follows:

Provision for (reversal of) credit losses by industry

(in millions of Canadian dollars)	**Performing**	**Impaired**	**2021 Total**	Performing	Impaired	2020 Total
Manufacturing	**(231)**	**(29)**	**(260)**	163	38	201
Transportation and storage	**(179)**	**53**	**(126)**	515	123	638
Information	**(38)**	**(49)**	**(87)**	53	240	293
Finance and insurance	**(21)**	**(26)**	**(47)**	20	28	48
Professional services	**(35)**	**(9)**	**(44)**	1	3	4
Commercial properties	**(77)**	**113**	**36**	106	–	106
Resources	**12**	**(46)**	**(34)**	38	285	323
Wholesale and retail trade	**(32)**	**3**	**(29)**	28	51	79
Other	**34**	**5**	**39**	47	35	82
Total Commercial	**(567)**	**15**	**(552)**	971	803	1,774
Sovereign	**(2)**	**–**	**(2)**	309	–	309
Total	**$ (569)**	**$ 15**	**$ (554)**	$ 1,280	$ 803	$ 2,083

For a breakdown of the provision for (reversal of) credit losses, refer to Table 4 in Supplemental Information.

Net Claims-Related Expenses (Recovery)

We recorded net claims-related recoveries of $51 million in 2021, compared to net claims-related expenses of $416 million in the prior year. The change in our net allowance for claims for 2021 is mainly the result of a reduction in the COVID-19 pandemic risk adjustment partly offset by changes in portfolio composition. Claims paid in 2021 included $49 million of claims paid to small- and medium-sized exporters.

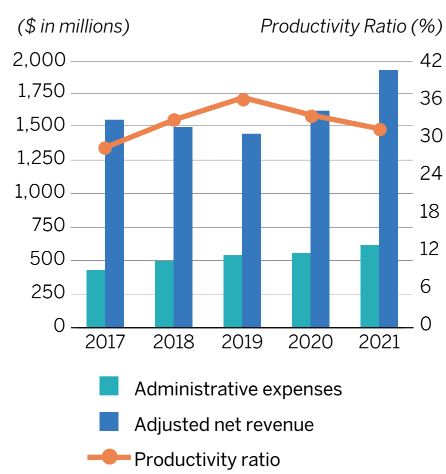
(in millions of Canadian dollars)	**2021**	2020
Claims paid	**54**	164
Claims recovered	**(18)**	(27)
Increase (decrease) in the net allowance for claims on insurance	**(122)**	285
(Increase) decrease in reinsurers' share	**33**	(6)
(Increase) decrease in recoverable insurance claims	**1**	(3)
Claims handling expenses	**1**	3
Total net claims-related expenses (recovery)	**$ (51)**	$ 416

Administrative Expenses

Administrative expenses for 2021 totalled $619 million, an increase of $63 million from the prior year mainly as a result of our strategic transformation beginning in 2021 as well as supporting the COVID-19 programs as previously discussed.

The Productivity Ratio (PR) captures how well we use our resources and ultimately manage our costs. The 2021 PR decreased to 31.4% which was better than our Corporate Plan projection as our net revenue was higher than originally planned mainly due to an increase in realized gains in our investments portfolio. Administrative expenses decreased by $94 million compared to Plan mainly due to timing delays for certain projects included in our strategic transformation resulting in a reduction in professional services costs as well as lower human resource and associated costs due to lower headcount than was anticipated in the Plan.

Administrative Expenses



FINANCIAL CONDITION

Statement of Financial Position Summary

Total assets were $60.6 billion at the end of 2021, a decrease of $7.1 billion from 2020, mainly due to a decrease in loans receivable, cash and marketable securities and derivative instruments, partially offset by a decrease in the allowance for losses on loans.

Loans receivable decreased by $6.4 billion from 2020, mainly due to net loan repayments of $4.8 billion and foreign exchange translation of $1.2 billion. The $4.8 billion in net loan repayments included $1.1 billion on revolving credit facilities, which were initially drawn in 2020 to preserve liquidity in response to the COVID-19 pandemic. As conditions improved into 2021 and concerns about liquidity eased, most of these facilities were repaid.

as at December 31 *(in millions of Canadian dollars)*	**2021**	2020
Cash and marketable securities	**9,289**	10,745
Derivative instruments	**1,139**	2,126
Loans receivable	**48,345**	54,722
Allowance for losses on loans	**(1,760)**	(2,630)
Investments	**2,707**	2,032
Other	**895**	702
Total Assets	**$ 60,615**	$ 67,697
Loans payable	**43,525**	45,020
Derivative instruments	**1,003**	1,623
Premium and claims liabilities	**670**	820
Other liabilities	**777**	944
Equity	**14,640**	19,290
Total Liabilities and Equity	**$ 60,615**	$ 67,697

Allowance for losses on loans decreased by $870 million compared to 2020 primarily due to an improvement in macroeconomic conditions, net repayments in our loan portfolio, as well as loan modifications which resulted in derecognition and removal of the associated allowance.

Loans payable decreased by $1.5 billion from the prior year primarily due to a decrease in our loans receivable balance, as our debt requirements are largely driven by our loan portfolio, partially offset by new debt required to fund dividend payments. In 2020, we received capital injections that were primarily used to pay down existing debt and in 2021 we made dividend payments, totalling $7.3 billion that were partially funded by new debt. The dividend payments also resulted in a reduction of equity when compared with December 2020. Please refer to page 93 for a more comprehensive discussion on our capital management.

Corporate Plan Discussion

(2022 discussion based on Corporate Plan submitted in 2021; numbers may vary from final approved Corporate Plan)

The following section discusses our 2021 results and financial position in comparison to Corporate Plan projections. We begin by looking back to our 2021 Corporate Plan and compare actual results to what was expected. Then we look forward to 2022 and provide an explanation of where we anticipate changes from our 2021 results and financial position.

Financial Performance

for the year ended December 31 (in millions of Canadian dollars)	2022 Corporate Plan	**2021 Actual Results**	2021 Corporate Plan
Net financing and investment income	1,168	**1,211**	1,250
Net insurance premiums and guarantee fees*	351	**349**	396
Other (income) expenses	(23)	**(741)**	91
Administrative expenses	682	**619**	713
Provision for (reversal of) credit losses	(166)	**(554)**	608
Net claims-related expenses (recovery)	175	**(51)**	300
Net income (loss)	851	**2,287**	(66)
Other comprehensive income	33	**343**	39
Comprehensive income (loss)	$ 884	**$ 2,630**	$ (27)

** Includes loan guarantee fees.*

2021 Corporate Plan

Net income for 2021 was $2,287 million compared to the 2021 Corporate Plan net loss of $66 million. Items of note are as follows:

- **Other income** was $832 million higher than the Corporate Plan due to realized and unrealized gains on our investments portfolio as well as the volatility associated with our other financial instruments carried at fair value through profit or loss. Due to the difficulty in estimating this volatility, a forecast for unrealized gains and losses is not included in the Corporate Plan.
- The **reversal of credit losses** of $554 million compared to the $608 million provision charge in the Corporate Plan is primarily due to an improvement in economic conditions, net loan repayments and a change in the loss given default model for our aerospace portfolio. The Corporate Plan reflected increased risk stemming from the COVID-19 pandemic however the economic outlook has improved more than anticipated.
- **Other comprehensive income** was $304 million higher than Plan due to an increase in the discount rates used to value our pension obligations and positive returns on plan assets.
- We recorded a **net claims-related recovery** of $51 million compared to net claims-related expenses of $300 million in the Corporate Plan mainly due to a reduction in net claims paid as well as a decrease in the allowance for claims on insurance as a result of a reduction to the COVID-19 risk adjustment.
- **Administrative expenses** decreased by $94 million compared to Plan mainly due to timing delays for certain projects included in our strategic transformation resulting in a reduction in professional services costs as well as lower human resource and associated costs due to lower headcount than was anticipated in the Plan.
- **Net insurance premiums and guarantee fees** were $47 million lower than the Corporate Plan primarily due to lower business facilitated than anticipated in our Business Credit Availability Program, partially offset by an increase in premiums for our international trade guarantee and credit insurance solutions as previously discussed.

2022 Corporate Plan

Net income for 2022 is planned to be $851 million, a decline of $1,436 million compared to 2021. Items of note are as follows:

- **Other income** is expected to be $23 million in 2022 compared to $741 million in 2021 mainly due to realized and unrealized gains on our financial instruments in 2021 as previously discussed. The level of realized gains on investments in 2021 is not expected to reoccur in 2022. In addition, due to the volatility and difficulty in estimating unrealized gains and losses, a forecast for these amounts is not included in the Corporate Plan.
- We are projecting a **reversal of credit losses** of $166 million in 2022 compared to $554 million in 2021. Although we expect further improvements in our loan portfolio, they will not be as significant as in 2021.
- **Net claims-related expenses** are expected to increase by $226 million as we are expecting an increase in claims activity due to our ongoing COVID-19 support.
- **Administrative expenses** are expected to be $63 million higher in 2022 due to the ongoing strategic transformation as previously discussed.

Financial Position

as at December 31 *(in millions of Canadian dollars)*	2022 Corporate Plan	**2021** **Actual Results**	2021 Corporate Plan
Cash and marketable securities	7,703	**9,289**	8,916
Derivative instruments	1,855	**1,139**	1,733
Loans receivable	48,795	**48,345**	53,985
Allowance for losses on loans	(1,458)	**(1,760)**	(1,723)
Investments	2,522	**2,707**	1,679
Other assets	556	**895**	693
Total Assets	$ 59,973	**$ 60,615**	$ 65,283
Loans payable	45,106	**43,525**	46,305
Derivative instruments	894	**1,003**	2,018
Premium and claims liabilities	542	**670**	805
Other liabilities	765	**777**	923
Equity	12,666	**14,640**	15,232
Total Liabilities and Equity	$ 59,973	**$ 60,615**	$ 65,283

2021 Corporate Plan

Loans receivable for 2021 were $5.6 billion less than projected in the Corporate Plan mainly due to higher net loan repayments than anticipated and foreign exchange translation.

Investments for 2021 were $1.0 billion higher than Plan largely as a result of new private equity investments.

Loans payable were $2.8 billion less than the Corporate Plan mainly due to a decrease in loans receivable, as our debt requirements are largely driven by our loan portfolio, and foreign exchange translation partially offset by new debt required to fund the dividend payments.

2022 Corporate Plan

The 2022 Corporate Plan is projecting a decrease in cash and marketable securities and an increase in loans payable due to anticipated share buybacks. For further discussion on the share buybacks refer to **page 94**.

Portfolio Exposures and Credit Quality

CONCENTRATION OF EXPOSURE

EDC's total exposure at the end of 2021 was $108 billion, a decrease of $13 billion from 2020 primarily due to a decrease in financing commitments of $5.1 billion and net loan repayments of $4.8 billion. The exposure within Canada increased from 26% in 2020 to 28% in 2021 primarily due to an increase in credit insurance and international trade guarantee solutions, while exposure in the United States decreased from 26% in 2020 to 24% in 2021, due to a decrease in financing assets and commitments and guarantees.

Exposure by Portfolio

as at December 31 (in millions of Canadian dollars)	**2021**	2020
Financing portfolio:		
Financing assets[1]	**51,144**	56,804
Commitments and guarantees[2]	**18,008**	22,619
Total financing portfolio	**69,152**	79,423
Insurance portfolio:		
Credit insurance	**14,213**	14,362
Financial institutions insurance	**2,366**	2,897
International trade guarantee	**11,738**	11,295
Political risk insurance	**479**	651
Reinsurance ceded[3]	**(217)**	(218)
Total insurance portfolio	**28,579**	28,987
Marketable securities and derivative instruments[4]	**10,428**	12,871
Total exposure	**$ 108,159**	$ 121,281

(1) Includes gross loans receivable and investments.

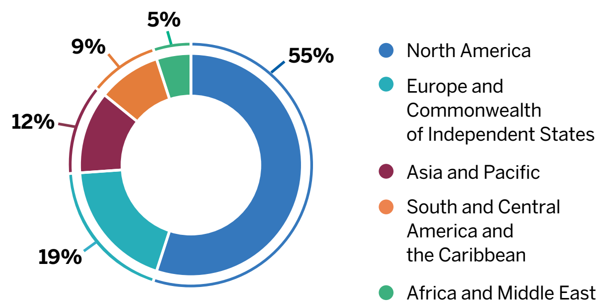
(2) Includes $884 million of investment commitments (2020 – $770 million).

(3) Represents treaty reinsurance agreements covering most bonding obligors and the short-term export credit insurance portfolio, including most foreign bank exposures.

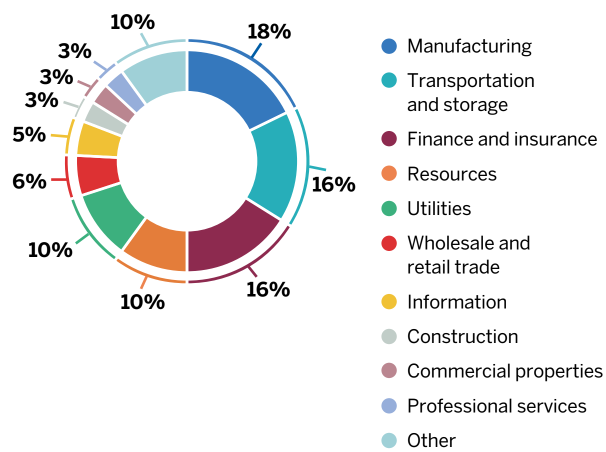
(4) Includes cash.

For a detailed breakdown of the major concentrations of total exposure by geographical market and industry, refer to Tables 5 and 6 in Supplemental Information.

Exposure by Geographic Market



Exposure by Industry



FINANCING PORTFOLIO

LOANS PORTFOLIO

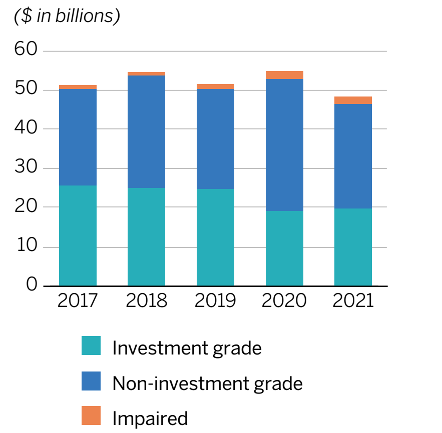
We support Canadian exports and Canadian investments abroad by providing financing solutions to Canadian exporters and their foreign customers, to Canadian investors and to financial institutions. Not only do we provide solutions for exporters with existing contracts, we also proactively identify potential procurement needs for large foreign buyers as well as large foreign projects, match those needs to Canadian expertise and provide financing in order to develop opportunities for procurement from Canadian companies. Our financing products enable Canadian companies to provide their customers with flexible financing. To mitigate credit risk within our loan portfolio, we enter into risk transfer transactions such as unfunded loan participations and loan default insurance.

Gross Loans Receivable

Gross loans receivable totalled $48,437 million at the end of 2021, a decrease of $6.3 billion or 12% from 2020. The decrease was mainly due to net repayments and loan sales of $4,786 million and foreign exchange translation.

In assessing the credit risk profile of our loan portfolio, we rate our obligors using a system of credit ratings as established in our credit risk-rating methodology. These ratings are reviewed on a regular basis. Based on their ratings, we then categorize our loans receivable into three risk classifications: investment grade, non-investment grade and impaired. See discussion on **page 138** related to risk ratings and the COVID-19 pandemic.

Gross Loans Receivable



Individually Impaired Gross Loans Receivable

Impaired loans represent loans for which we no longer have reasonable assurance that the full amount of principal and interest will be collected on a timely basis in accordance with the terms of the loan agreement. At the end of 2021, impaired gross loans receivable totalled $2,035 million, an increase of $71 million from 2020. During the year there were new impairments of $619 million including one obligor in the commercial properties industry ($437 million), one obligor in the transportation and storage industry ($105 million) and two obligors in the wholesale and retail trade industry ($30 million). These additions were partially offset by principal recovered through repayments ($216 million) and loan sales ($24 million). Overall, impaired loans as a percentage of total gross loans receivable increased to 4.20% in 2021 from 3.59% in 2020.

Note 5 in the Consolidated Financial Statements provides additional information on the activity in our impaired loans portfolio during the year.

Table 7 in Supplemental Information provides industry concentration on impaired gross loans receivable.

Commercial Loans, Loan Commitments and Loan Guarantees

(in millions of Canadian dollars)	Gross loans receivable	Commitments	Loan guarantees	Risk transfer	2021 Exposure*		2020 Exposure*	
Industry					$	%	$	%
Transportation and storage	**14,650**	**2,114**	**219**	**(72)**	**16,911**	**26**	19,844	26
Manufacturing	**6,672**	**2,719**	**1,373**	**–**	**10,764**	**17**	16,580	22
Resources	**6,567**	**2,692**	**295**	**(772)**	**8,782**	**14**	10,439	14
Utilities	**6,308**	**2,077**	**63**	**–**	**8,448**	**13**	7,380	10
Finance and insurance	**3,272**	**971**	**60**	**866**	**5,169**	**8**	5,633	7
Information	**3,330**	**585**	**272**	**(13)**	**4,174**	**6**	4,435	6
Commercial properties	**2,712**	**450**	**52**	**(9)**	**3,205**	**5**	3,412	5
Wholesale and retail trade	**1,445**	**422**	**853**	**–**	**2,720**	**4**	3,137	4
Professional services	**1,250**	**88**	**300**	**–**	**1,638**	**3**	1,699	2
Other	**573**	**369**	**667**	**–**	**1,609**	**2**	1,623	2
Construction	**577**	**208**	**221**	**–**	**1,006**	**2**	1,244	2
Total	**$ 47,356**	**$ 12,695**	**$ 4,375**	**$ –**	**$ 64,426**	**100**	$ 75,426	100

**The current year has been prepared with the North American Industry Classification System (NAICS). Prior year amounts have been reclassified and are grouped in accordance with NAICS.*

In order to manage our concentration risk, we enter into unfunded loan participation and loan default insurance agreements with financial institutions, thereby transferring exposure from other industries to the financial institutions industry.

In 2021, our non-investment grade exposure decreased to 61% (2020 – 66%) of total exposure due to increased market stability. The largest concentrations of non-investment grade exposures are within the transportation and storage (28%), manufacturing (20%) and resources industries (13%).

Total commercial exposure in the manufacturing industry decreased by 5% mainly due to loan asset sales undertaken in order to reduce our carbon intense exposure.

Our five most significant counterparty exposures representing $6,001 million, or 9% of the total commercial exposure at the end of 2021 were as follows:

- three transportation and storage industry obligors with total exposure of $3,610 million, one located in the United Kingdom, one in Malta, and one in Canada; and
- two resources industry obligors with total exposure of $2,391 million, located in Chile.

After consideration of unfunded loan participations and loan default insurance, our exposure to these counterparties is $4,771 million.

Sovereign Loans, Loan Commitments and Loan Guarantees

(in millions of Canadian dollars)	**Gross loans receivable**	**Commitments**	**Loan guarantees**	**2021 Exposure**		2020 Exposure	
Country				**$**	**%**	$	%
Angola	**458**	**–**	**–**	**458**	**40**	427	36
Egypt	**325**	**–**	**–**	**325**	**29**	352	29
Indonesia	**51**	**–**	**–**	**51**	**5**	81	7
Pakistan	**48**	**–**	**–**	**48**	**4**	47	4
Serbia	**37**	**–**	**–**	**37**	**3**	53	4
China	**35**	**–**	**–**	**35**	**3**	44	4
Cuba	**35**	**–**	**–**	**35**	**3**	35	3
Uruguay	**–**	**–**	**24**	**24**	**2**	36	3
Rwanda	**23**	**–**	**–**	**23**	**2**	33	3
Other	**69**	**30**	**–**	**99**	**9**	87	7
Total	**$ 1,081**	**$ 30**	**$ 24**	**$ 1,135**	**100**	$ 1,195	100

Sovereign exposure includes 92% of non-investment grade exposure (2020 – 93%).

Allowance for Credit Losses

The total allowance for losses on loans, loan commitments and loan guarantees was $1,910 million at the end of 2021, a decrease of $990 million from 2020, mainly stemming from the recovery from the COVID-19 pandemic.

The key components impacting the allowance in 2021 were as follows:

- net repayments and maturities – reduction of $494 million;
- modifications resulting in derecognition – decrease of $344 million;
- remeasurement, partially as a result of improved macroeconomic conditions – decrease of $245 million;
- a return to our previous aerospace loss given default model – decrease of $107 million;
- loan write-offs – reduction of $44 million;
- the strengthening of the Canadian dollar relative to the U.S. dollar – decrease of $48 million; offset by
- new originations – increase of $292 million.

INVESTMENTS

EDC plays a role in supporting the export growth of Canadian companies by helping them to access capital and financing in order to reach global market opportunities. Our solution suite covers a broad range of solutions with a portfolio of debt, late stage venture capital and private equity investments focused on promising Canadian exporters. Our exporter investments are made both directly into Canadian businesses and via Canadian fund partners. EDC also supports Canadian exporters through an investment matching program, a COVID-19 response program now made a permanent part of our offering, which is intended to support Canadian Small- and Medium-sized Exporters (SME) by matching investments made by private sector institutional venture capital, private equity and corporate partners. Investments are normally held for periods greater than five years. Divestitures are generally made through the sale of our investment interests through private sales to third parties or sales on public markets.

Consistent with our business goal of deploying more capital to Canadian exporters, our exposure increased by $789 million to $3,591 million in 2021 largely as a result of new private equity investments. During the year, we signed an additional $483 million of investment arrangements (2020 – $299 million) which included $96 million (2020 – $126 million) invested in 39 SMEs under the matching program.

Refer to Table 9 in Supplemental Information for a breakdown of exposure for our investments.

INSURANCE PORTFOLIO

Credit insurance facilitates export growth by mitigating risk, providing companies with the confidence to do business abroad knowing that their receivables will be paid should their buyer default on payment. It also enhances their cash flow as banks are generally comfortable providing additional support when their customers' foreign receivables are insured.

Financial institutions insurance supports Canadian exporters for bank and foreign buyer counterparty risk in trade transactions.

EDC's international trade guarantee products are delivered through partnerships with banks and surety companies. Our performance security and surety bond products are used by exporters primarily to guarantee their contract performance, which helps free up working capital. Our partnerships with banks and surety companies help them mitigate their risks and make it easier for exporters to obtain the coverage they need. We provide contract frustration insurance coverage to protect against commercial and political risks resulting from buyer non-payment associated with a specific contract.

Political risk insurance provides coverage for political events that could adversely impact a company's foreign operations and/or its financial intermediaries by protecting investments and assets in other countries, typically in emerging markets.

The assistance that EDC provides to our policyholders within our four primary insurance solutions is counted in various ways. Under credit insurance and financial institutions insurance product groups, the policyholder declares their sales volume to entities covered by their policy. These declarations are counted as business facilitated. Within our international trade guarantee solution, a facility is established and the policyholder makes requests for cover to initiate specific coverage. These requests represent business facilitated by EDC. As transactions are signed within political risk insurance, they are also counted as business facilitated.

In addition to directly underwriting insurance policies, we assume exposure from other insurers to fulfill our mandate to support Canadian exporters. We also cede reinsurance to other insurance companies to mitigate our risk. The ceding arrangements provide greater diversification of the business and minimize the net loss potential arising from large exposures.

As part of EDC's response to the COVID-19 pandemic, we enhanced our existing insurance programs to further support companies, including SMEs, facing liquidity challenges. This was achieved by increasing our exposure limits for several insurance products in the credit insurance and international trade guarantee programs due to increased demand from Canadian businesses as well as increasing our risk appetite within the credit insurance program to cover more Canadian exporters looking to insure their sales against non-payment.

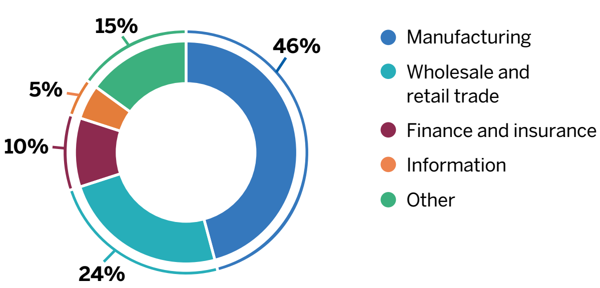
Insurance in Force

Our liability associated with outstanding insurance policies and guarantees is referred to as insurance in force and exposure throughout this annual report.

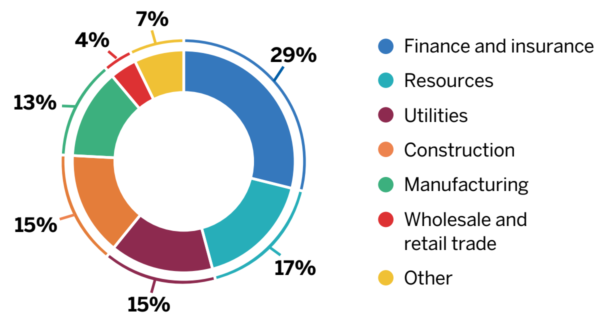
Insurance in force totalled $28,579 million at the end of 2021 (2020 – $28,987 million).

The following charts show the exposure by industry of our credit insurance and international trade guarantee solutions:

Credit Insurance
Exposure by Industry

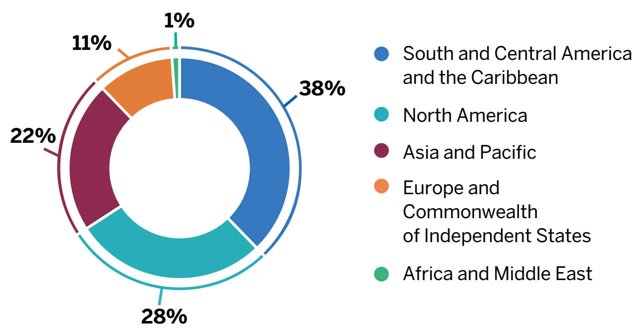


International Trade Guarantee
Exposure by Industry

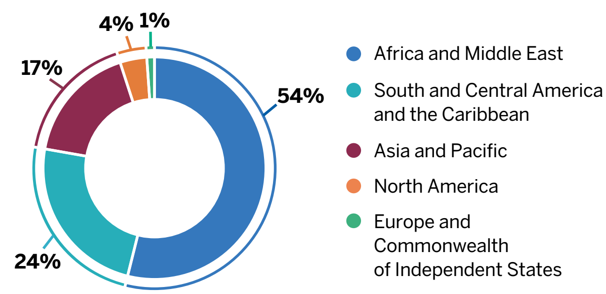


The following charts show the exposure by geographic market for our financial institutions and political risk insurance solutions:

Financial Institutions Insurance
Exposure by Geographic Market



Political Risk Insurance
Exposure by Geographic Market



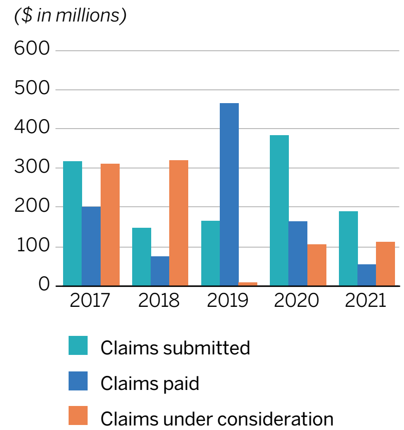
Claims

The following table provides a breakdown of claims paid by exporter's insured industry:

(in millions of Canadian dollars)	2021*		2020*	
	$	%	$	%
Manufacturing	**21**	**39**	66	41
Wholesale and retail trade	**16**	**29**	62	38
Finance and insurance	**8**	**15**	8	5
Information	**3**	**5**	2	1
Resources	**2**	**4**	–	–
Construction	**2**	**4**	4	2
Professional services	**2**	**4**	4	2
Utilities	**–**	**–**	13	8
Other	**–**	**–**	5	3
Claims paid	**54**	**100**	164	100
Claims recovered	**(18)**		(27)	
Net claims paid	**$ 36**		$ 137	

** The current year has been prepared with the North American Industry Classification System (NAICS). Prior year amounts have been reclassified and are grouped in accordance with NAICS.*

Claims Submitted, Paid and Under Consideration



Claim payments totalled $54 million in 2021 and were comprised of 544 claims related to losses in 60 countries (2020 – 1,136 claims in 83 countries). In 2021, the largest concentration of claim payments was in our credit insurance solution relating to risks in North America.

In 2021, we recovered $19 million in total (2020 – $31 million) of which $1 million was disbursed to exporters (2020 – $4 million).

For a breakdown of claims by size concentration, refer to Table 10 in Supplemental Information.

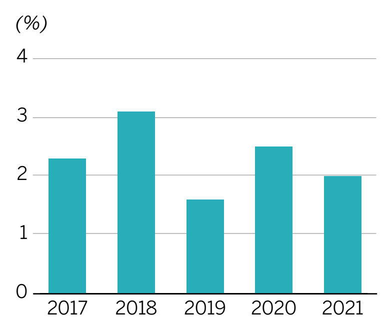
Premium and Claims Liabilities

Premium and claims liabilities represent our estimate of future claims under the terms and conditions of our insurance policies.

At the end of 2021, the premium and claims liabilities were $670 million. The liability net of the reinsurers' share was $560 million, a decrease of $110 million from 2020, primarily due to a decrease in the COVID-19 pandemic risk adjustment partly offset by changes in portfolio composition.

The reinsurers' share of our premium and claims liabilities is recorded as an asset on the Consolidated Statement of Financial Position and is also included in our premium and claims liabilities. The reinsurers' share of premium and claims liabilities was $110 million. If we were required to pay a claim on reinsured policies, we could recover from the reinsurer depending on the terms of the agreement.

Premium and Claims Liabilities as a % of Insurance in Force (net of reinsurance)



As permitted by International Financial Reporting Standard 7 – Financial Instruments: Disclosures*, we have displayed certain parts of our Management's Discussion and Analysis which discuss the nature, extent and management of credit, liquidity and market risks in green font. These disclosures form an integral part of our audited consolidated financial statements for the year ended December 31, 2021.*

MARKETABLE SECURITIES AND DERIVATIVE INSTRUMENTS

Our policies and procedures, which are reviewed periodically, are designed to limit and manage credit risk associated with marketable securities and derivative instruments. These policies and procedures define the minimum acceptable counterparty rating in alignment with the Minister of Finance Financial Risk Management Guidelines for Crown Corporations. In addition, we have policies which are reviewed periodically and procedures that establish credit limits for each counterparty, which are reviewed by management no less than annually. These policies and procedures are designed to limit and manage the credit risk associated with these financial instruments.

Our interest-bearing deposits and marketable securities portfolio expose us to the risk that the deposit-taking institutions or counterparties will not repay us in accordance with contractual terms. Our potential deposit and marketable securities credit exposure is represented by the carrying value of the financial instruments.

The following table provides a breakdown, by credit rating and term to maturity, of our deposits and marketable securities credit exposure:

(in millions of Canadian dollars)

	Remaining term to maturity				
Credit rating	**Under 1 year**	**1 to 3 years**	**Over 3 years**	**2021 Exposure**	2020 Exposure
AAA	**2,789**	**2,091**	**2,610**	**7,490**	8,118
AA+	**6**	**19**	**25**	**50**	26
AA-	**823**	**–**	**–**	**823**	789
A+	**625**	**37**	**–**	**662**	1,672
A	**49**	**–**	**–**	**49**	40
A-	**190**	**19**	**–**	**209**	98
BBB	**–**	**–**	**–**	**–**	2
BBB-	**6**	**–**	**–**	**6**	–
Total	**$ 4,488**	**$ 2,166**	**$ 2,635**	**$ 9,289**	$ 10,745

Derivatives expose us to the risk that the counterparty will not repay us in accordance with contractual terms. Our potential derivative credit exposure is represented by the replacement cost of contracts that have a positive fair value. For a more in-depth discussion on the use of derivative instruments, refer to the section on derivative instruments (see **page 101**).

All swaps are transacted with high credit quality financial institutions. We operate a collateral program to mitigate credit exposure related to swaps used to hedge risk within our funding program. As market rates move between the settlement date and maturity date of the swap, the financial instrument attains value such that to terminate the swap early, one counterparty would need to make a payment to the other to compensate for the movement in rates. In order to mitigate the credit risk, we enter into collateral agreements with financial institutions with whom we undertake swap transactions. Under the terms of the swap agreements, when the credit exposure surpasses an agreed upon threshold, collateral in the form of government securities is posted with an independent third party by our swap counterparty. At the end of 2021, $94 million (2020 – $292 million) was posted as collateral by our counterparties to mitigate credit risk associated with swap agreements.

The following table provides a breakdown, by credit rating and term to maturity, of our derivative credit exposure and how it is offset against exposure netting amounts and collateral held. Exposure netting amounts represent derivative contracts where there is an agreement with the counterparty (netting agreement) that allows us to offset the counterparty's derivative credit exposure to us against our credit exposure to that same counterparty. After applying both exposure netting and collateral held, our net exposure is $224 million (2020 – $546 million). The net exposure decreased from the prior year primarily due to foreign exchange rate movement on long-term currency swaps, as well as unrealized losses on interest rate swaps.

(in millions of Canadian dollars)

	Remaining term to maturity							
Credit rating	Under 1 year	1 to 3 years	Over 3 years	Gross exposure	Exposure netting*	Collateral held	2021 Net exposure	2020 Net exposure
AA-	287	250	202	739	(603)	–	136	369
A+	63	67	33	163	(132)	–	31	74
A	69	147	19	235	(84)	(94)	57	76
A-	–	–	2	2	(2)	–	–	27
Total	$ 419	$ 464	$ 256	$ 1,139	$ (821)	$ (94)	$ 224	$ 546

** As a result of netting agreements.*

Credit risk for marketable securities and derivative instruments is reported on a quarterly basis to the Asset Liability Management Committee and to the Risk Management Committee of the Board.

Capital Management

Our capital management framework ensures that we are appropriately capitalized and that our capital position is identified, measured, managed and regularly reported to the Board. Our capital is first and foremost available to support Canadian exporters and investors for the benefit of Canada. Being appropriately capitalized has allowed us to fulfill our mandate and sustain continued risk capacity for Canadian exporters and investors.

We have a capital management framework in place which follows the Internal Capital Adequacy Assessment Process (ICAAP). Under ICAAP, EDC targets a level of capitalization sufficient to cover potential losses consistent with a rating standard of AA. This solvency standard aligns with that of leading financial institutions and with the key principles of financial self-sufficiency.

We assess capital adequacy by comparing the supply of capital to the demand for capital. Demand for capital, which is calculated by models or approaches that estimate the capital required to cover the potential losses consistent with an AA solvency level, includes credit, market, operational, pension plan and business/strategic risk. The supply of capital is determined by our financial statements and consists of paid-in share capital and retained earnings.

Capital Adequacy

as at December 31 *(in millions of Canadian dollars)*	2021	2020
Demand for capital		
Credit risk	4,634	4,829
Market risk	1,543	1,135
Operation risk	244	226
Strategic risk	552	524
Pension plan risk	594	545
Strategic initiatives	300	300
Total demand for capital	$ 7,867	$ 7,559
Supply of capital	$ 14,640	$ 19,290
EDC implied solvency rating	AAA	AAA

We measure and report changes to capital supply, capital demand and its implied solvency rating to Executive Management monthly. These capital measures are reported regularly to the Board together with forward looking stress tests which model the potential impact on capital of severe but plausible risk events.

We strive to ensure that our risk and capital management policies are aligned with industry standards and are appropriately sophisticated relative to our risk profile and business operations.

In 2020, as a result of our actions to support Canada's response to the COVID-19 pandemic, we received capital injections totalling $10,967 million and did not pay a dividend to the shareholder. In 2021, we paid a dividend of $580 million according to our current dividend policy, as well as a special dividend of $6.7 billion based on the capital position of the BCAP programs and a targeted ICAAP ratio. As agreed to with our shareholder, future dividends and/or special dividends will be paid by way of a share buyback until such time that our share capital returns to pre-pandemic levels. In 2022, we are repurchasing shares for a total of $3,810 million based on the capital position of our core programs, BCAP programs and a targeted ICAAP ratio.

Capital Adequacy – BCAP Support to the Oil and Gas Sector

as at December 31 *(in millions of Canadian dollars)*	**2021**	2020
Demand for capital		
Oil and gas	**$ 907**	$ 951
Other	**5**	1
Total demand for capital	**$ 912**	$ 952
Supply of capital	**$ 3,141**	$ 9,284
Capital surplus	**$ 2,229**	$ 8,332

Investor Relations

Treasury issues debt securities and manages EDC's liquidity while mitigating operational, financial and reputational risks.

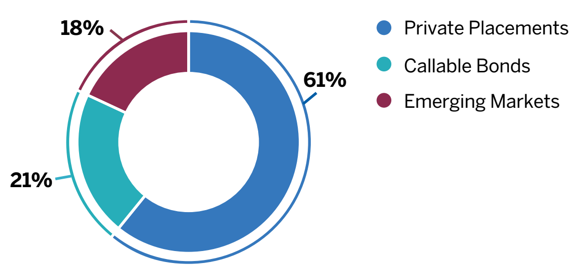
Funding

In 2021, we borrowed USD 5.8 billion in the global capital markets by issuing fixed income securities in private formats in eight currencies.

We have not returned to the public markets since the beginning of the COVID-19 pandemic in 2020, and instead funded our long-term needs with private placement transactions, callable bonds and emerging market currency notes.

In 2020, we received $10.97 billion of capital injections from our shareholder. These injections allowed us to have sufficient liquidity to support EDC's response to the COVID-19 pandemic and reduced our need to borrow.

Fiscal 2021
Total Funding USD 5.8 billion



During 2021, we made dividend payments of $7.3 billion funded from maturities in our marketable securities, net cash flows from our operations and new debt.

Off Balance Sheet Arrangements

In the normal course of business, we engage in a variety of transactions with structured entities (SEs). SEs are generally created for a single purpose, have a limited lifespan and are used for risk management, legal or taxation reasons to hold specific assets for their benefactors. These transactions are generally undertaken for risk, capital and funding management purposes that benefit our customers. In accordance with IFRS, those SEs where we are not exposed or do not have rights to variable returns from our involvement with the SE and do not have decision-making power to affect the returns of the SE, have not been consolidated on our Statement of Financial Position.

EDC may also use SEs to hold assets that have been foreclosed upon and cannot be held directly for legal or taxation reasons, typically for foreclosed assets in foreign countries. Refer to Note 24 for further details.

Financial Instruments

Given the nature of our business, our assets and liabilities are substantially composed of financial instruments. Financial instrument assets include cash resources, securities, investments, loans receivable and recoverable insurance claims, while financial instrument liabilities include accounts payable, loans payable and loan guarantees.

In accordance with IFRS, the majority of our financial instruments are recognized in the Consolidated Statement of Financial Position at their fair value. These financial instruments include marketable securities, investments, derivative instruments, loans payable designated at fair value through profit or loss and recoverable insurance claims. Note 3 of the consolidated financial statements outlines the accounting treatment for our financial instruments, while Note 21 provides details of how their fair values are determined.

Derivative Instruments

We may also use a variety of derivative instruments to manage interest rate risk, foreign exchange risk and credit risk. Derivative instruments used include interest rate swaps, cross currency interest rate swaps, foreign exchange swaps and foreign exchange forwards.

We do not use derivatives for speculative purposes. These derivatives are only contracted in accordance with policies established in the Global Risk Management Group (GRM Group) and approved by our Board of Directors. Both our internal policies and guidelines and those set by the Minister of Finance limit our use of derivatives. Derivative counterparty credit risk is managed by contracting only with creditworthy counterparties, and in certain cases entering into collateral agreements with those counterparties. For further discussion on our risk management framework, refer to the Risk Management discussion on the following pages.

Risk Management Overview

As Canada's export credit agency, EDC is in the business of taking risk. It is through the assumption of risk that we deliver on our mandate and generate value. Our global business activities expose us to a wide variety of risks – financial, operational and strategic – across a diverse economic and political landscape. As we seize new business opportunities, we must be vigilant in our efforts to identify and anticipate risks and manage them in a prudent manner. By doing so, we will safeguard our ability to achieve our business objectives and remain sustainable and relevant in the years to come.

We have established a foundational Enterprise Risk Management (ERM) practice and we have made significant investments in our risk management activities. We have adopted a plan to mature our risk management activities to ensure comprehensive, enterprise-wide risk management. Our intended outcomes incorporate guidance provided by the Office of the Superintendent of Financial Institutions, the Office of the Auditor General and industry leaders.

At EDC, ERM is not about taking more or less risk but developing a governance system that enables us to manage the risks we do choose to take. This effort involves, among other things, elevating risk awareness, understanding and foresight throughout the organization. By better managing risk, we can serve more exporters and investors and in so doing, play a more significant role in Canada's trade ecosystem.

Our ERM emphasizes a strong risk culture of oversight and clear direction, ownership and accountability, and the requirement for robust monitoring and reporting. Key elements include: governance in accordance with a three-lines-of-defence model (3LD), an industry best-practice approach to risk governance; articulation and operationalization of our risk appetite; enhanced discipline around risk management processes; and integration of new financial and operational risk policies.

Our Board of Directors and management team are actively engaged to ensure that a risk management program is effectively implemented at all levels of the corporation.

In accordance with our ERM Framework, progress has been made with respect to adoption of the 3LD model. Implementation of the 3LD model will ensure that we continue to manage our business according to the evolving standards of Canadian financial institutions and that appropriate checks and balances are in place as we take on risk in order to deliver solutions for our customers.

Risk Governance, Oversight and Design

Our evolving risk governance structure balances strong central oversight and control of risk with clear accountability for and ownership of risk within the front lines. The 3LD risk governance model ensures a balance between three distinct organizational functions, or "lines of defence":

- 1st Line of Defence: Employees on the front line who take, own and manage risk on a day-to-day basis.
- 2nd Line of Defence: The risk and compliance functions that provide independent oversight of and effective challenge to the first-line's risk management activities by ensuring that the organization's governance structure is appropriate, the right checks and balances are in place, and the proper tools are available.
- 3rd Line of Defence: The internal audit function, which provides independent assurance on the effectiveness of risk management policies, processes and practices to senior management and the Board.

This structure supports the cascade of EDC's Risk Appetite throughout the organization and provides forums for risks to be appropriately considered, discussed, debated and factored into business decisions at all levels and across all functions.

BOARD AND ITS COMMITTEES

Board of Directors

The Board of Directors is ultimately responsible for Risk Governance by setting the cultural tone, approving EDC's Risk Appetite Statement and ERM Framework, and maintaining oversight as to the efficacy of the ERM program. In addition, it has responsibility to ensure that our incentive, reward and performance management and evaluation systems are aligned and in place, with due emphasis on risk, compliance and controls. The Board operates six[1] formal committees to oversee and provide guidance and direction. This committee structure helps to ensure that risks are adequately considered, discussed, debated and factored into business decisions.

Risk Management Committee of the Board

This committee assists the Board in fulfilling its oversight responsibilities with respect to the prudent management of our capital structure, including the management of the credit, market and other enterprise risks of EDC.

Audit Committee of the Board

The Audit Committee assists the Board in fulfilling its oversight responsibilities with respect to our standards of integrity and behaviour, financial reporting and internal control systems.

MANAGEMENT AND ITS KEY RISK COMMITTEES

Executive Management Team

The Executive Management team, led by the President and CEO and including the executives reporting directly to the President and CEO and those reporting to the Chief Business Officer, is ultimately accountable for managing enterprise risk within the Board-approved Risk Appetite, approving policies and procedures and overseeing execution of risk management activities. The Executive Management team has primary responsibility for the management of EDC's risks, standards of integrity and behaviour, financial reporting and internal control systems.

The Executive Management team participates in various senior management committees. Six of these are described below.

Management Risk Management Committee

This committee has responsibility to make risk decisions, provide guidance on risk issues, undertake risk governance and to ensure that appropriate capital and risk management policies are in place.

[1] *For further details on Board Committees, please refer to* ***page 72*** *of this Annual Report.*

Asset Liability Management Committee

The Asset Liability Management Committee acts as authority for recommending market risk policies to the Board for approval and ensuring that policies are supported by appropriate procedures and practices for the measurement, management and reporting of market risk. In addition, the committee provides endorsement as to the acceptability of our asset/liability management strategy, ensures that market risk positions are managed within policy limits, and addresses such risk practices as diversification requirements and reporting and monitoring of compliance with guidelines.

Investment Committee

The Investment Committee reviews and endorses the acceptability of transactions to be made under our investments program, and recommends transactions to the appropriate level of authority. It also makes recommendations regarding the program's strategy to the Executive Management team and the Board of Directors and monitors program-level performance.

Executive Committee

The Executive Committee provides a forum to achieve Executive alignment on non-transactional topics of a strategic nature. Topics brought forward will likely be precedent setting and may involve innovative ideas around EDC's business direction.

Management Pension Committee

This committee oversees operations and performs high-level decision-making functions with respect to the pension plans and the related pension funds including recommendations to the Human Resources Committee of the Board.

Initiatives Oversight Committee

The Initiatives Oversight Committee (IOC) ensures EDC's transformation priorities and benefits realized are aligned with our Corporate Plan and strategy. IOC reviews, provides input to, challenges, and approves the transformation roadmap including investments and discretionary spending for the portfolio of initiatives. It also monitors and provides oversight on overall transformation progress and performance.

As we mature our risk management practices, the structure of our risk committees will evolve and be revised accordingly.

KEY RISK MANAGEMENT GROUPS

Global Risk Management Group

The Global Risk Management Group (GRM Group) provides independent oversight of and effective challenge to the management of risks inherent in our activities, including the establishment of our Enterprise Risk Management policies and framework to manage risk in alignment with our risk appetite and business strategies. The GRM Group is responsible for identifying, measuring, monitoring, assessing, and reporting on risk factors facing EDC, and ensuring that risk considerations are taken into account and align with our risk tolerance in all areas and processes at EDC. The GRM Group is headed by the SVP, Global Risk Management and Chief Risk Officer, who works closely with the President and Chief Executive Officer, the Chief Business Officer, the Board of Directors and other members of Senior Management to set the 'tone at the top' and establish a risk aware culture across EDC.

Finance

Responsible for financial planning, accounting, financial reporting and cash management, Finance ensures that appropriate controls exist for effective cash management and delivery of complete and accurate financial reporting.

Internal Audit

As the third line of defence, Internal Audit (IA) is responsible to provide independent and objective assurance and advisory services designed to add value and help us achieve our business objectives pertaining to operations, reporting, and compliance with laws and regulations. IA does this by bringing a systematic and disciplined approach to evaluating and improving internal controls, risk management, and governance processes. Although IA's mandate includes the provision of advisory services to management, these services will be ancillary to the assurance services it provides to the Audit Committee of the Board of Directors. Our Chief Internal Auditor reports to the Chair of the Audit Committee of the Board of Directors and has a dotted line reporting relationship with our President and CEO.

IA governs itself by adhering to The Institute of Internal Auditors' (IIA) mandatory guidance, including the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the IIA Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. This guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of internal audit's performance.

Front Line Units

Front Line Units includes business units and other functions within the first line of defence who take, own and manage risk on a day-to-day basis. These functions are responsible for identifying, assessing, mitigating, assuming, controlling and reporting on risk in accordance with established enterprise risk appetite, policies, culture and strategic goals.

Risk Taxonomy

Our Enterprise Risk Management taxonomy breaks risk down into three broad areas, expressing our risk appetite and tolerance in terms of financial risk, operational risk, and strategic risk. As a financial institution, financial risk is naturally front and centre and, as a result, the majority of this report covers this area.

FINANCIAL RISK MANAGEMENT

Portfolio Risk Profile

While EDC follows leading risk management practices, we generally assume more risk than a typical financial institution due to our mandate. We take on larger single counterparty exposures and larger concentration exposures by industry than other financial institutions, most notably in the resources and transportation and storage industries which lead Canadian exports.

Our non-investment grade exposure corresponds to 61% of EDC's loan portfolio and 89% of capital demand is attributable to EDC's loan portfolio.

Credit Risk Management

Credit risk is the risk of loss incurred if a counterparty fails to meet its financial commitments. We are exposed to credit risk under our loans and insurance programs and treasury activities.

We manage credit risk in the organization through policy requirements, established authorities and limits, mitigation activities and reporting. Our credit risk policies set out our requirements on credit granting, concentration, counterparty and country limits, risk rating, exposure measurement, monitoring and review, portfolio management and risk transfer, as well as management and Board reporting.

Credit Granting

We deliver our products and services through business teams grouped under our insurance and financing programs. The business teams are responsible for the proper due diligence associated with each credit commitment. Every credit commitment requires recommendation and approval. Credit commitments in excess of certain thresholds require independent authorization by the Global Risk Management Group or the Board of Directors. The credit rating of a transaction and/or the dollar amount of exposure at risk determines whether approval is required by the GRM Group or the Board of Directors.

Our approval responsibilities are governed by delegated authorities. The Board delegates specific transactional approval authorities to the President and CEO. Onward delegation of authority by the President and CEO to business units is controlled to ensure decision-making authorities are restricted to those individuals with the necessary experience levels. The criteria whereby these authorities may be further delegated throughout the organization, as well as the requirements relating to documentation, communication and monitoring of delegated authorities, are set out in corporate policies and standards.

We bear additional counterparty risk through our treasury liquidity and derivative portfolios. Treasury counterparties must be recommended by the Market and Liquidity Risk team and approved by the Risk Management Office team within the GRM Group. The recommender and approver must both have the appropriate delegated authority. All treasury credit exposures are measured on a fair value basis and compliance with policy and operational limits is measured daily. In addition, we have policies and procedures in place to limit and to manage the credit risk associated with these financial instruments and to define collateral requirements for treasury counterparties.

We also bear counterparty risk through our insurance portfolio under a reinsurance structure, where we are exposed to the credit risk of the reinsurer. To help mitigate this risk, our placement of reinsurance is diversified such that it is not dependent on a single reinsurer. Reinsurance counterparty exposure is managed under our reinsurance counterparty management procedures and monitored by the GRM Group.

Concentration Limits

To ensure diversification of risks within our credit commitments, we have established risk limits in place to protect against being overly concentrated to any one country, industry or commercial obligor. Our capital base is factored into the determination of limits as well as risk factors associated with the exposure including the obligor rating, country rating, associated collateral and EDC product type. Exposures beyond the risk limits require either Presidential approval within discretionary limits or review by the Risk Management Committee of the Board and approval of the Board.

Risk Ratings

Consistent with the Basel II Advanced Internal Rating-Based approach, credit risk is measured by assigning two distinct ratings. The first one is a risk rating to an obligor that is tied to a probability of default (PD). The PD describes the likelihood of a default of an obligor over a one-year period. The second one is a rating to a transaction in the form of a loss given default (LGD) estimate. The LGD estimates the percentage of dollar exposure which EDC reasonably expects to lose should a default occur on a specific transaction.

EDC's internal credit risk rating system measures obligor and transaction risks for the majority of our risk exposure. This risk rating system utilizes a 20 point rating scale to differentiate the PD of obligors and a 7 point rating scale to differentiate the LGD of transactions. While our obligor rating is arrived at independently of external ratings for the obligor, our risk-rating methodology includes a review of those external ratings.

Our Economics team is responsible for establishing, monitoring and approving country risk ratings. Country risk ratings are continually reviewed to take into consideration any changes in the world environment or a specific country.

For treasury related counterparties, EDC's internal credit rating is assigned as the lower of the highest two external ratings.

Exposure Measurement

To ensure that the level of credit risk is transparent to both management and the Board, our credit exposure measurement guideline requires information reporting and comparison of the aggregated exposures within a portfolio against prescribed limits such as country, industry and obligor. We also report on approved short-term buyer limits under our accounts receivable insurance program.

Monitoring and Review

Our operating practices include ongoing monitoring of credit exposures. Teams are in place to monitor and manage credit exposure within the different product lines which include monitoring of events in the country and industry of the obligor. The business teams are responsible for managing the credit quality and financial performance of our portfolio of commercial loans and guarantees both at the transaction and portfolio levels. This includes undertaking loan reviews, assessing risk ratings and regularly monitoring borrowers and the credit risk environment including research and assessment of financial, operating and industry trends. Our portfolio of credit insurance counterparties is actively monitored by our Risk Assessment and Portfolio Management team. In addition, deteriorating credits are managed by teams that specialize in restructurings, Paris Club reschedulings, claims and recoveries. Management and the Board are frequently apprised on the credit quality of the portfolio through regular reporting including detailed quarterly reporting on the breakdown of the portfolio by risk ratings, impaired obligors, loan write-offs and claims information.

Portfolio Management

The goal of portfolio management is to ensure our ability to pursue mandate related opportunities while taking into consideration the availability of financial resources and limit constraints. Management and the Board are regularly updated on our portfolio of credit exposures through quarterly compliance reporting against concentration limits. We use both primary and secondary portfolio management activities to address imbalances or excess concentrations including, but not limited to, syndication at credit origination, the sale of assets, insurance, reinsurance and hedging using credit derivatives.

We continue to make use of loan insurance for risk mitigation purposes targeting large exposures in our loan portfolio. To address credit concentration in our insurance portfolios we engage in various risk transfer activities.

Management and Board Reporting

The GRM Group provides timely and comprehensive risk reporting to management and the Board on major risks being assumed by or facing EDC, enabling appropriate management and oversight. This reporting includes, but is not limited to: a quarterly risk management report; a monthly credit risk policy compliance report; a monthly capital adequacy report; and a monthly report detailing our market risk, liquidity and funding, and counterparty credit risk policies. Ad-hoc risk reporting is provided to senior management and the Board as warranted for new or emerging risk issues or significant changes in our level of risk. Significant credit risk issues and action plans are tracked and reported to ensure management accountability and attention are maintained.

Market Risk Management

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: foreign exchange risk; interest rate risk; and other price risk. We are exposed to potential losses as a result of movements in interest and foreign exchange rates.

Through our policies and guidelines, we ensure that market risks are identified, measured, managed and regularly reported to management and the Board. Our market risk policies set out our requirements on interest rate and foreign exchange exposure limits, liquidity, investment, debt funding, management of the credit risk for treasury counterparties and management and Board reporting. The Asset Liability Management Committee, which is chaired by the Chief Financial Officer (alternate Chair is the Chief Risk Officer), oversees and directs the management of market risks inherent within our normal business activities. Risk oversight is provided by the Market and Liquidity Risk team in the GRM Group.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. We are exposed to potential adverse impacts on the value of financial instruments resulting from differences in the maturities or repricing dates of assets and liabilities both on and off-balance sheet, as well as from embedded optionality in those assets and liabilities.

Our interest rate risk is managed in accordance with guidelines established by the Department of Finance as well as policies set by the Board. We report interest rate risk on a monthly basis to the Asset Liability Management Committee and quarterly to the Risk Management Committee of the Board.

Management of interest rate risk is enabled through monthly risk position monitoring against limits and reporting. Interest rate risk is measured by simulating the impact of a 100 basis point change in both our net financing and investment income and our economic value. Economic value is defined as the present value of all future cash flows for assets and liabilities of EDC (discounted at current market swap rates for each currency).

Our policy sets limits based on the impact of an instantaneous 100 basis point change in interest rates. The limit on the sensitivity of net financing and investment income (NFII) to an instantaneous 100 basis point change in interest rates is that, for the next 12-month period, NFII should not decline by more than 7.5%, (± $87 million and $90 million as at year-end 2021 and 2020, respectively) on a consolidated Canadian dollar equivalent basis. The second limit is that for an instantaneous 100 basis point change in interest rates, EDC's economic value should not decline by more than 10% (± $1,653 million and $2,319 million as at year-end 2021 and 2020, respectively) of our current net present value.

EDC's economic value is sensitive to interest rates; however, we hedge our interest rate risk mismatches in multiple currencies.

The table below presents the sensitivity of the net financing and investment income, net income, and economic value of EDC to a parallel 100 basis point change in interest rates given the outstanding positions as at December 31:

(in millions of Canadian dollars)	**2021**		2020	
	+100 Basis Points	**-100 Basis Points**	+100 Basis Points	-100 Basis Points
Change in net financing and investment income	**(54)**	**54**	52	(52)
Change in net income	**109**	**(139)**	446	(163)
Change in economic value of EDC*	**(641)**	**672**	(461)	313

** Economic value is the measure of EDC's market value, as measured by the present value of assets minus the present value of liabilities.*

Foreign Exchange Risk

Foreign exchange risk is the potential adverse impact on the value of financial instruments resulting from exchange rate movements. We are exposed to foreign exchange rate risk when there is a mismatch between assets and liabilities in any currency.

Our foreign exchange risk is managed in accordance with guidelines established by the Department of Finance as well as policies approved by the Board. We report our foreign exchange risk on a monthly basis to the Asset Liability Management Committee and quarterly to the Risk Management Committee of the Board.

In addition to the guidelines and policies described above, we also have supplemental operational limits and reporting requirements. Management of foreign exchange risk is enabled through monthly risk position monitoring against limits and reporting.

As per our policy, the potential translation loss impact to one month's net financing and investment income (NFII) as measured by a two standard deviation change in foreign exchange rates is limited to 2.5% of projected 12 month NFII, on a consolidated Canadian dollar equivalent basis.

As the table below indicates, we were onside our policy as at December 31:

(in millions of Canadian dollars)	**2021**	2020
Limit	**29**	30
Position	**22**	27

The table below presents the sensitivity of net income to changes in the value of the Canadian dollar versus the other currencies to which we were exposed given the outstanding positions as at December 31:

(in millions of Canadian dollars)	**2021**		2020	
	Increases by 1%	**Decreases by 1%**	Increases by 1%	Decreases by 1%
Change in net income	**(5)**	**5**	(6)	6

Derivative Instruments

We use a variety of derivative instruments to manage costs, returns and levels of financial risk associated with funding, investment and risk management activities. The principal purpose for which we use derivative instruments is to hedge against foreign exchange and interest rate risk. Our use of derivative instruments may include, but is not restricted to, currency and interest rate swaps, foreign exchange swaps, forwards and options. We do not use derivative instruments for speculative purposes.

We do not engage in the use of derivative instruments whose value and financial risks cannot be measured, monitored and managed on a timely basis. The Market and Liquidity Risk team formally reviews our derivative instrument transactions at time of inception, and on an ongoing basis to provide an independent verification on the valuation of transaction structures and of associated financial risks.

Derivative instruments are used to hedge risks by matching various exposures. For example, we may balance the proportion of fixed to floating assets in our portfolio using interest rate swaps in order to mitigate interest rate risk.

The following table indicates the fair value of our derivative instruments based upon maturity:

as at December 31 (in millions of Canadian dollars)	**Positive**	**Negative**	**2021 Net**	Positive	Negative	2020 Net
Less than 1 year	**419**	**(248)**	**171**	284	(448)	(164)
1 – 3 years	**464**	**(224)**	**240**	797	(191)	606
3 – 5 years	**179**	**(145)**	**34**	719	(223)	496
Over 5 years	**77**	**(386)**	**(309)**	326	(761)	(435)
Gross fair value of contracts	**$ 1,139**	**$ (1,003)**	**$ 136**	$ 2,126	$ (1,623)	$ 503

Liquidity Risk Management

Liquidity risk is the risk that we would be unable to honour daily cash outflow commitments or the risk that we would have to obtain funds rapidly, possibly at an excessively high premium during severe market conditions. Liquidity risk arises from two sources: mismatched cash flows related to assets and liabilities and liquidity risk due to the inability to sell marketable securities in a timely and cost effective manner.

Our Treasury department is responsible for our liquidity management and the Market and Liquidity Risk team is responsible for monitoring compliance with our policies and procedures. Pursuant to our risk management policies, we must maintain sufficient liquidity to meet a prescribed minimum level, based on forecasted cash requirements.

Within the overall policy framework, we manage our liquidity risk both within the overall policy limits and also within supplemental limits. The Market and Liquidity Risk team measures our position on a daily basis and provides a monthly report to senior management on our actual liquidity position against this minimum limit, as well as a quarterly report to the Risk Management Committee of the Board.

We maintain liquidity through a variety of methods:

- Cash and Marketable Securities: We hold cash and marketable securities to ensure that sufficient liquidity is available if required to meet forecasted cash requirements. During 2021, the average balance of cash and marketable securities was $10,498 million (2020 – $12,995 million).
- Access to Commercial Paper Markets: In the course of our normal activities, our commercial paper programs provide us with the necessary liquidity to meet our cash requirements on a daily basis. During 2021, the average balance of commercial paper was $4,409 million (2020 – $10,349 million).

Investment Risk

The Investment Policy defines the marketable securities investments that we may undertake in the market place by instrument type. The investment of corporate cash holdings is governed by Section 10(1.1)(h) of the *Export Development Act* (the "Act"), Section 128 of the *Financial Administration Act*, and EDC's Investment Authorities approved by the Minister of Finance.

Debt Funding

The Act places limitations on our borrowings. It allows us to borrow and have outstanding borrowings up to a maximum of 15 times the aggregate of (a) our current paid-in capital and (b) our retained earnings determined in accordance with the previous year's audited financial statements.

The Minister of Finance, pursuant to the requirements of the *Financial Administration Act*, annually approves the borrowings of EDC. The Debt Funding Policy is monitored on a monthly basis and reported to management and the Board on a quarterly basis.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of loss or harm resulting from inadequate or failed internal processes, people and systems, or from external events. Exposure to operational risk could affect our ability to meet objectives and execute on our Corporate Plan by way of lost opportunity, business interruption and/or damage to our reputation.

We divide operational risk into eight categories:

- Compliance
- Legal
- Threats (internal and external)
- Model
- People
- Process
- Technology and Business Disruption
- Third Party

The EDC Operational Risk Management Framework (ORMF) expresses our principles for managing operational risk in a coordinated manner and in compliance with the applicable regulations wherever it conducts business. It is part of the enterprise-wide policies and procedures that collectively express the governance and control structure for achieving EDC's strategy. The ORMF is the embodiment of the Board and Executive Management's recognition of operational risk as a distinct risk management discipline, requiring dedicated attention, resources and an enterprise approach to achieve the purpose described below.

The principles governing EDC Operational Risk Management include the following:

- Ensure relevant and effective Operational Risk Management by focusing on things that matter to EDC;
- Enable and advise the Lines of Business on how to operate within EDC's Risk Appetite; and
- Implement standards, guidelines, and systems adapted to EDC.

We have identified a list of key operational risks inherent to our business, including change management, information security, financial crime and internal and external fraud. We have assessed and continue to assess our exposure to these risks. On an annual basis, Executive Management identify, assess and monitor top risks, which considers these key operational risks. On a quarterly basis, Executive Management and risk owners review the status of risk mitigation response plans, reassess the risk levels, and report the risk profile to the Board.

We also maintain a practical and disciplined approach to acquiring appropriate insurance coverage. Further, we deploy certain governance frameworks and conventions such as our Business Continuity Plan.

Finally, Internal Audit's independent review provides additional assurance that operational risks are appropriately managed.

STRATEGIC RISK MANAGEMENT

We define strategic risk as the risk of loss or harm arising from pursuit of an inappropriate strategy, poor execution of strategy and/or failure to respond well to changes in the external environment.

We divide strategic risk into two categories:

- External environment: systematically identifying and assessing external risks and opportunities.
- Planning: formulating, communicating, executing and evaluating corporate direction and objectives.

EDC is diligent in attuning itself to the external environment through the work of specialized groups such as our Economic and Political Intelligence Centre, Corporate Research Department, and our Corporate Strategy Team. As well, the annual customer survey that drives our net promoter score and our proactive business development practice afford us critical insights into customer needs. The insight gained from these surveillance activities is incorporated into our strategic and operational planning exercises.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A summary of our significant accounting policies can be found in Note 3 of our 2021 consolidated financial statements. Judgment is required in the selection of accounting policies and their application requires the use of estimates and assumptions to arrive at the reported carrying values of our assets and liabilities. We have established procedures to ensure that accounting policies are applied consistently and that the process for making changes to methodologies and assumptions is well controlled and occurs in an appropriate and systematic manner. Areas where significant estimates are used include the allowance for credit losses, premium and claims liabilities, retirement benefit obligations, and the fair value of financial instruments. Management exercises judgment in the allowance for credit losses, premium and claims liabilities, the fair value of financial instruments, structured entities and retirement benefit obligations. For details on our use of estimates and key judgments refer to **page 125** of this annual report.

The COVID-19 pandemic gives rise to heightened uncertainty and increases the need to apply judgment in evaluating the economic environment and its impact on significant estimates. The uncertainty created by the COVID-19 pandemic has increased the level of judgment applied in estimating the allowance for credit losses (see Note 5), and premiums and claims liabilities (see Note 15). Actual results could vary significantly from these estimates and judgments.

Change in Accounting Standards

Interest Rate Benchmark Reform – Phase 2

In August 2020, the IASB issued amendments to *IFRS 9 – Financial Instruments*, *IAS 39 – Financial Instruments: Recognition and Measurement*, *IFRS 7 – Financial Instruments: Disclosures*, *IFRS 4 – Insurance Contracts* and *IFRS 16 – Leases* to address the reforms related to the interest rate benchmark.

The amendments include changing the effective interest rate of financial instruments to reflect the change to the alternative benchmark rate, as well as additional disclosures about new risks arising from the reform and how we are managing the transition to alternative benchmark rates. For financial assets and financial liabilities measured at amortized cost, the amendments introduce a practical expedient that allows the change in contractual cash flows to be accounted for as an update to the effective interest rate, as opposed to immediately recognizing a gain or loss, provided that the modification is made on an economically equivalent basis and is a direct consequence of interest rate benchmark reform.

Certain loans receivable measured at amortized cost were transitioned to a new interest rate benchmark in 2021 as disclosed in Note 5.

Further details are provided in Note 3 of the consolidated financial statements.

IFRS 17 – Insurance Contracts

In May 2017, the IASB issued IFRS 17 which replaces the guidance in IFRS 4 and establishes recognition, measurement, presentation, and disclosure requirements of insurance contracts. The standard requires entities to measure the contract liabilities using their current fulfillment cash flows and revenue to be recognized using one or more of three methods. We are planning to adopt two of these methods – the General Measurement Model and the Premium Allocation Approach to measure insurance contracts. IFRS 17 is effective for annual periods beginning on or after January 1, 2023. We are currently assessing the impact of applying the standard on our consolidated financial statements and will adopt the standard when it becomes effective.

Non-IFRS Performance Measures

We use a number of financial measures to assess our performance. Some of these measures are not calculated in accordance with IFRS, and do not have standardized meanings under IFRS that would ensure consistency and comparability between companies using these measures. The following non-IFRS performance measures are referenced in this report:

Productivity Ratio (PR)

Management uses PR as a measure of EDC's efficiency. This ratio represents administrative expenses expressed as a percentage of net revenue excluding unrealized gains and losses as well as the impact due to fluctuations in the exchange rate from the rate projected in the Corporate Plan. As pension costs can fluctuate from year to year based on assumptions used to value the pension liability, the productivity ratio is calculated based on the pension assumptions in the Corporate Plan, with the intent of absorbing any changes in the following year.

Capital Adequacy

Capital adequacy is a measurement of the amount of capital required to cover the credit, market, operational, pension and business/strategic risks we have undertaken compared to the existing capital base. See the Capital Management section on page 93 for details on the definition and calculation of capital adequacy.

Claims Ratio

The claims ratio expresses net claims incurred as a percentage of net written premium. Net claims incurred include claims paid net of recoveries, estimated recoveries and changes in actuarial liabilities. This ratio, as shown below, only includes credit insurance activities.

Reinsurance ceded reflects various partnerships we have with private insurers and reinsurers in offering and managing insurance capacity.

Net claims incurred includes claims paid net of recoveries and estimated recoveries of $29 million (2020 –$105 million). In addition, there was a decrease in actuarial liabilities of $127 million (2020 – $186 million increase).

(in millions of Canadian dollars)	**2021**	2020
Premiums earned	**134**	121
Reinsurance ceded	**(16)**	(14)
Net written premium	**$ 118**	$ 107
Net claims incurred/(recovered)	**$ (98)**	$ 291
Claims ratio	**-83%**	272%

EDC manages its loss experience using a 7-year claims ratio for our credit insurance solution. In 2021, the ratio was 94% (2020 – 115%), in large part due to the decreased net allowance for claims as a result of a reduction in the COVID-19 pandemic risk adjustment as well as actuarial assumption changes.

SUPPLEMENTAL INFORMATION

Table 1: Loan Interest Yield

(in millions of Canadian dollars)	**2021**	2020	2019	2018	2017
Gross loans receivable:					
Average performing floating rate	**35,740**	40,025	38,179	38,679	39,771
Average performing fixed rate	**12,775**	14,557	13,872	13,492	12,560
Total average performing gross loans receivable	**48,515**	54,582	52,051	52,171	52,331
Average carrying value on impaired loans	**1,034**	823	498	425	423
Total average income earning loan assets	**$ 49,549**	$ 55,405	$ 52,549	$ 52,596	$ 52,754
Loan revenue:					
Performing floating rate interest	**826**	1,147	1,614	1,524	1,259
Performing fixed rate interest	**421**	485	487	473	453
Other loan revenue	**215**	198	194	210	203
Loan revenue	**$ 1,462**	$ 1,830	$ 2,295	$ 2,207	$ 1,915
Yields – performing loans:					
Performing floating rate coupon(1)	**2.31%**	2.87%	4.23%	3.94%	3.17%
Performing fixed rate coupon(1)	**3.30%**	3.33%	3.51%	3.51%	3.61%
Total performing loan coupon yield(1)	**2.57%**	2.99%	4.04%	3.83%	3.27%
Total loan effective yield(2)	**2.95%**	3.30%	4.37%	4.20%	3.63%

(1) Excludes fee increments.

(2) Includes fee increments.

Table 2: Net Finance Margin

(in millions of Canadian dollars)	**2021**	2020	2019	2018	2017
Average performing loans receivable	**48,515**	54,582	52,051	52,171	52,331
Average carrying value on impaired loans	**1,034**	823	498	425	423
Average finance lease assets – aircraft	**–**	–	2	3	–
Average marketable securities balance	**10,277**	12,837	11,230	12,857	6,850
Average investment portfolio balance	**2,341**	1,750	1,450	1,259	1,069
Total average income earning assets	**$ 62,167**	$ 69,992	$ 65,231	$ 66,715	$ 60,673
Financing and investment revenue:					
Loan	**1,462**	1,830	2,295	2,207	1,915
Marketable securities	**82**	165	255	257	93
Investments	**16**	14	7	9	9
Total financing and investment revenue	**1,560**	2,009	2,557	2,473	2,017
Interest expense	**324**	760	1,307	1,219	715
Leasing and financing related expenses	**25**	26	31	33	45
Net financing and investment income	**$ 1,211**	$ 1,223	$ 1,219	$ 1,221	$ 1,257
Net finance margin	**1.95%**	1.75%	1.87%	1.83%	2.07%

Table 3: Insurance Premiums and Guarantee Fees

(in millions of Canadian dollars)	**2021**	2020	2019	2018	2017
Credit insurance:					
Credit insurance business facilitated	**71,030**	58,201	57,569	58,555	55,827
Premiums and fees earned prior to ceding reinsurance	**139**	126	115	114	112
Average credit insurance premium rate	**0.20%**	0.22%	0.20%	0.19%	0.20%
Financial institutions insurance:					
Financial institutions insurance business facilitated	**6,733**	9,189	6,915	4,259	8,205
Premiums and fees earned prior to ceding reinsurance	**9**	13	11	14	18
Average financial institutions insurance premium rate	**0.13%**	0.14%	0.16%	0.33%	0.22%
International trade guarantee:					
International trade guarantee average exposure	**11,443**	10,448	9,300	8,900	8,113
Premiums and fees earned	**115**	99	82	76	67
Average international trade guarantee premium rate	**1.00%**	0.95%	0.88%	0.86%	0.83%
Political risk insurance:					
Political risk insurance average exposure	**564**	830	869	897	1,154
Premiums and fees earned	**6**	7	10	10	10
Average political risk insurance premium rate	**1.08%**	0.90%	1.13%	1.08%	0.84%
Loan guarantees:					
Loan guarantees average exposure	**4,328**	4,047	3,543	2,832	2,565
Loan guarantee fees earned	**97**	55	55	48	43
Average loan guarantee fee rate	**2.24%**	1.36%	1.55%	1.69%	1.68%

Table 4: Provision for (Reversal of) Credit Losses

(in millions of Canadian dollars)	**2021**	2020	2019	2018	2017*
Provision for (reversal of) credit losses on:					
Loans	**(435)**	1,897	247	(18)	(90)
Loan commitments	**(30)**	42	(9)	10	(61)
Loan guarantees	**(89)**	144	2	(3)	32
Total provision for (reversal of) credit losses	**$ (554)**	$ 2,083	$ 240	$ (11)	$ (119)

** 2018 through 2021 amounts have been prepared in accordance with IFRS 9. 2017 has not been restated and is prepared in accordance with IAS 39.*

Table 5: Concentration of Exposure by Geographical Market

(in millions of Canadian dollars)	Financing portfolio		Insurance portfolio							
Country	Financing assets[1]	Commitments and guarantees[2]	Credit insurance	Financial institutions insurance	International trade guarantee	Political risk insurance[3]	Reinsurance ceded	Marketable securities and derivative instruments[4]	2021 Exposure $	%
Canada	**8,441**	**7,596**	**1,070**	**431**	**11,576**[5][6]	**–**	**–**	**1,674**	**30,788**	**28**
United States	**6,523**	**3,883**	**7,756**	**239**	**23**	**–**	**–**	**7,258**	**25,682**	**24**
United Kingdom	**6,461**	**1,292**	**349**	**–**	**1**	**–**	**–**	**56**	**8,159**	**8**
Chile	**4,180**	**689**	**62**	**220**	**–**	**–**	**–**	**–**	**5,151**	**5**
Australia	**3,189**	**279**	**179**	**–**	**1**	**–**	**–**	**504**	**4,152**	**4**
Mexico	**1,803**	**471**	**429**	**10**	**–**	**28**	**–**	**6**	**2,747**	**3**
India	**2,271**	**123**	**176**	**3**	**1**	**4**	**–**	**–**	**2,578**	**2**
China	**1,427**	**399**	**416**	**222**	**13**	**78**	**–**	**–**	**2,555**	**2**
Germany	**2,035**	**110**	**211**	**–**	**4**	**–**	**–**	**40**	**2,400**	**2**
Spain	**1,631**	**167**	**98**	**–**	**–**	**–**	**–**	**–**	**1,896**	**2**
Other[7]	**13,183**	**2,999**	**3,467**	**1,241**	**119**	**507**	**–**	**890**	**22,406**	**20**
	51,144	**18,008**	**14,213**	**2,366**	**11,738**	**617**	**–**	**10,428**	**108,514**	**100**
Country limits in excess of policy limits[3]	**–**	**–**	**–**	**–**	**–**	**(138)**	**–**	**–**	**(138)**	**–**
Reinsurance ceded[8]	**–**	**–**	**–**	**–**	**–**	**–**	**(217)**	**–**	**(217)**	**–**
Total	**$ 51,144**	**$ 18,008**	**$ 14,213**	**$ 2,366**	**$ 11,738**	**$ 479**	**$ (217)**	**$ 10,428**	**$ 108,159**	**100**

(in millions of Canadian dollars)	Financing portfolio		Insurance portfolio							
Country	Financing assets[1]	Commitments and guarantees[2]	Credit insurance	Financial institutions insurance	International trade guarantee	Political risk insurance[3]	Reinsurance ceded	Marketable securities and derivative instruments[4]	2020 Exposure $	%
Canada	8,430	8,796	767	263	11,111[5][6]	–	–	2,693	32,060	26
United States	8,734	6,517	7,843	389	36	–	–	7,822	31,341	26
United Kingdom	5,474	837	321	–	1	–	–	223	6,856	6
Mexico	3,185	1,190	566	12	–	27	–	2	4,982	4
Chile	3,956	596	82	178	–	6	–	–	4,818	4
Australia	3,209	281	196	–	–	–	–	596	4,282	4
India	2,720	123	270	15	2	4	–	–	3,134	3
Germany	2,491	96	257	–	2	–	–	130	2,976	2
China	1,281	438	594	194	12	136	–	–	2,655	2
Brazil	1,068	466	610	170	90	53	–	–	2,457	2
Other[7]	16,256	3,279	2,856	1,676	41	814	–	1,405	26,327	21
	56,804	22,619	14,362	2,897	11,295	1,040	–	12,871	121,888	100
Country limits in excess of policy limits[3]	–	–	–	–	–	(389)	–	–	(389)	–
Reinsurance ceded[8]	–	–	–	–	–	–	(218)	–	(218)	–
Total	$ 56,804	$ 22,619	$ 14,362	$ 2,897	$ 11,295	$ 651	$ (218)	$ 12,871	$ 121,281	100

(1) *Includes gross loans receivable, investments and the impact of risk transfer transactions.*

(2) *Includes undisbursed loan commitments, accepted and outstanding letters of offer, loan guarantees, investment commitments, unallocated confirmed lines of credit and the impact of risk transfer transactions.*

(3) *Includes the sum of individual country exposures and thus exceeds the maximum liability of $479 million (2020 – $651 million) for all the policies in political risk insurance.*

(4) *Includes cash. Exposure does not take into consideration any collateral or the effect of any master netting agreements with derivative counterparties.*

(5) *Includes $224 million of surety bond insurance, where the risk rests with the Canadian exporter (2020 – $260 million). A total of 39% of the exports insured under surety bond products are to the United States and 50% are to Brazil (2020 – United States: 56%, Brazil: 39%). The balance represents exports to other countries.*

(6) *Includes $10,751 million in performance security guarantees, where the risk rests with the Canadian exporter (2020 – $10,274 million). A total of 56% of the exports insured under performance security products are to the United States (2020 – 54%). The balance represents exports to other countries.*

(7) *Includes 170 countries (2020 – 173) with total exposure ranging from $0.001 million to $1,786 million (2020 – $0.001 million to $1,589 million).*

(8) *Represents treaty reinsurance agreements covering most bonding obligors and the short-term export credit insurance portfolio, including most foreign bank exposures.*

Table 6: Concentration of Exposure by Industry

(in millions of Canadian dollars)	Financing portfolio		Insurance portfolio					Marketable securities and derivative instruments[3]	2021 Exposure	
	Financing assets[1]	Commitments and guarantees[2]	Credit insurance	Financial institutions insurance	International trade guarantee	Political risk insurance	Reinsurance ceded			
Industry[5]									$	%
Commercial:										
Manufacturing	6,831	4,099	6,627	–	1,453	98	–	–	19,108	18
Finance and insurance	5,851	1,766	1,407	2,366	3,430	13	–	2,849	17,682	16
Transportation and storage	14,602	2,333	355	–	156	5	–	–	17,451	16
Resources	5,828	3,012	457	–	1,984	–	–	–	11,281	10
Utilities	6,339	2,161	485	–	1,799	–	–	–	10,784	10
Wholesale and retail trade	1,524	1,276	3,361	–	468	3	–	–	6,632	6
Information	3,435	883	719	–	100	–	–	–	5,137	5
Commercial properties	2,703	501	70	–	41	38	–	–	3,353	3
Construction	590	429	116	–	1,749	210	–	–	3,094	3
Professional services	1,665	428	487	–	348	112	–	–	3,040	3
Other	695	1,066	129	–	210	–	–	–	2,100	2
Total commercial	50,063	17,954	14,213	2,366	11,738	479	–	2,849	99,662	92
Sovereign	1,081	54	–	–	–	–	–	7,579	8,714	8
	51,144	18,008	14,213	2,366	11,738	479	–	10,428	108,376	100
Reinsurance ceded[4]	–	–	–	–	–	–	(217)	–	(217)	–
Total	$ 51,144	$ 18,008	$ 14,213	$ 2,366	$ 11,738	$ 479	$ (217)	$ 10,428	$ 108,159	100

(in millions of Canadian dollars)	Financing portfolio		Insurance portfolio					Marketable securities and derivative instruments[3]	2020 Exposure	
	Financing assets[1]	Commitments and guarantees[2]	Credit insurance	Financial institutions insurance	International trade guarantee	Political risk insurance	Reinsurance ceded			
Industry[5]									$	%
Commercial:										
Manufacturing	10,089	6,586	6,589	–	2,059	118	–	–	25,441	20
Transportation and storage	15,769	4,101	320	–	170	5	–	–	20,365	17
Finance and insurance	6,013	1,693	1,576	2,897	3,099	81	–	4,400	19,759	16
Resources	6,643	3,828	496	–	2,164	10	–	–	13,141	11
Utilities	6,143	1,289	488	–	1,407	7	–	–	9,334	8
Wholesale and retail trade	1,614	1,611	3,731	–	424	2	–	–	7,382	6
Information	3,884	616	373	–	42	–	–	–	4,915	4
Commercial properties	2,969	442	70	–	–	39	–	–	3,520	3
Construction	445	814	112	–	1,450	246	–	–	3,067	3
Professional services	1,441	474	489	–	286	142	–	–	2,832	2
Other	690	1,074	118	–	194	1	–	–	2,077	2
Total commercial	55,700	22,528	14,362	2,897	11,295	651	–	4,400	111,833	92
Sovereign	1,104	91	–	–	–	–	–	8,471	9,666	8
	56,804	22,619	14,362	2,897	11,295	651	–	12,871	121,499	100
Reinsurance ceded[4]	–	–	–	–	–	–	(218)	–	(218)	–
Total	$ 56,804	$ 22,619	$ 14,362	$ 2,897	$ 11,295	$ 651	$ (218)	$ 12,871	$ 121,281	100

The following table presents the reclassification of the prior year commercial figures from the concentration of exposure by industry to presentation in accordance with NAICS:

	Previous Industry Classification									
(in millions of Canadian dollars)	Aerospace	Surface transportation	Resources	Light manufacturing	Infrastructure and environment	Financial institutions	Information and communications technologies	Mining	Oil and gas	Total commercial
NAICS										
Construction	–	14	15	36	2,631	123	19	11	218	3,067
Finance and insurance	87	276	254	491	1,021	16,571	832	26	201	19,759
Information	2	1	32	27	2	102	4,749	–	–	4,915
Manufacturing	2,283	5,939	3,467	4,902	1,952	57	963	2,216	3,662	25,441
Commercial properties	1,547	1,265	–	2	76	554	44	2	30	3,520
Professional services	52	162	65	230	861	17	1,050	26	369	2,832
Resources	16	2	690	41	51	10	5	7,104	5,222	13,141
Transportation and storage	10,560	5,650	42	277	1,024	–	5	77	2,730	20,365
Wholesale and retail trade	37	487	1,571	2,516	308	12	220	1,888	343	7,382
Utilities	–	–	3	–	9,172	–	3	–	156	9,334
Other	70	102	6	991	431	5	444	19	9	2,077
Total commercial	$ 14,654	$ 13,898	$ 6,145	$ 9,513	$ 17,529	$ 17,451	$ 8,334	$ 11,369	$ 12,940	$111,833

[1] Includes gross loans receivable, investments and the impact of risk transfer transactions.
[2] Includes undisbursed loan commitments, accepted and outstanding letters of offer, loan guarantees, investment commitments, unallocated confirmed lines of credit and the impact of risk transfer transactions.
[3] Includes cash. Exposure does not take into consideration any collateral or the effect of any master netting agreements with derivative counterparties.
[4] Represents treaty reinsurance agreements covering most bonding obligors and the short-term export credit insurance portfolio, including most foreign bank exposures.
[5] The current year has been prepared with the North American Industry Classification System (NAICS). Prior year amounts have been reclassified and are grouped in accordance with NAICS.

Table 7: Individually Impaired Gross Loans Receivable

(in millions of Canadian dollars)	**2021**	2020
Commercial*:		
Transportation and storage	**594**	577
Commercial properties	**436**	–
Information	**206**	284
Resources	**146**	459
Utilities	**116**	125
Wholesale and retail trade	**108**	63
Manufacturing	**103**	168
Construction	**74**	79
Finance and insurance	**29**	37
Professional services	**23**	27
Other	**191**	136
Total commercial	**2,026**	1,955
Sovereign:		
Iran	**8**	8
Venezuela	**1**	1
Total sovereign	**9**	9
Total impaired gross loans receivable	**$ 2,035**	$ 1,964

** The current year has been prepared with the North American Industry Classification System (NAICS). Prior year amounts have been reclassified and are grouped in accordance with NAICS.*

Table 8: Performing Loans – Allowance for Credit Losses

(in millions of Canadian dollars)			**2021**			2020
Industry of risk	**Exposure**	**Allowance**	**Allowance as a percentage of exposure**	Exposure	Allowance	Allowance as a percentage of exposure
Commercial:						
Transportation and storage*	**16,327**	**226**	**1.4**	19,279	406	2.1
Utilities	**8,332**	**135**	**1.6**	7,256	52	0.7
Manufacturing	**10,627**	**89**	**0.8**	16,385	336	2.1
Resources	**8,622**	**51**	**0.6**	9,947	44	0.4
Information	**3,961**	**26**	**0.7**	4,147	50	1.2
Professional services	**1,607**	**19**	**1.2**	1,654	55	3.3
Wholesale and retail trade	**2,565**	**15**	**0.6**	3,040	46	1.5
Commercial properties	**2,777**	**13**	**0.5**	3,411	107	3.1
Finance and insurance	**5,142**	**9**	**0.2**	5,581	27	0.5
Construction	**926**	**7**	**0.8**	1,159	7	0.6
Other	**1,403**	**18**	**1.3**	1,452	73	5.0
Total commercial	**62,289**	**608**	**1.0**	73,311	1,203	1.6
Sovereign	**1,126**	**330**	**29.3**	1,186	346	29.2
Total	**$ 63,415**	**$ 938**	**1.5**	$ 74,497	$ 1,549	2.1

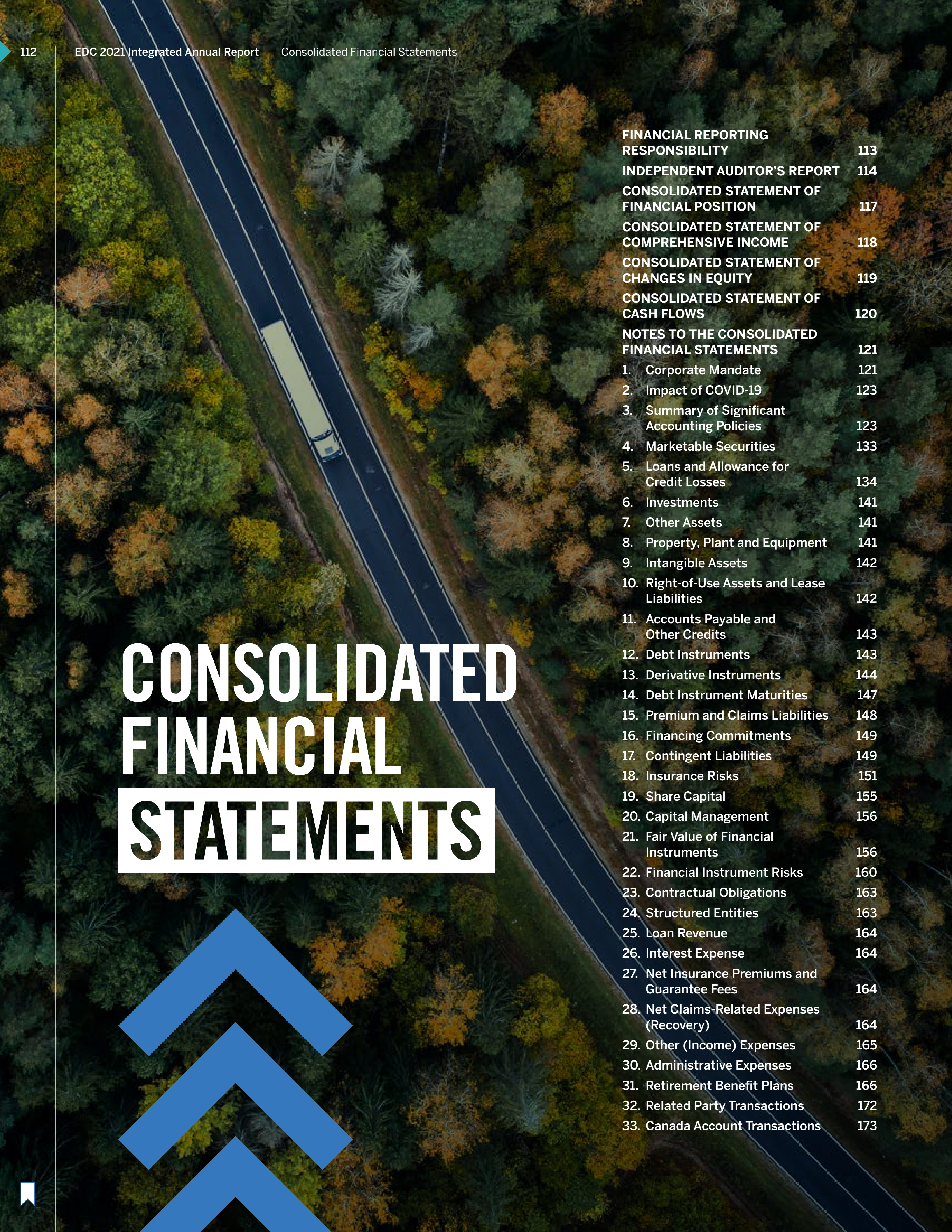
** Includes other assets exposure of $10 million (2020 – $13 million) and allowance on other assets of $1 million (2020 – $4 million).*

Table 9: Investments

(in millions of Canadian dollars)	**Investments financing**	**Undisbursed commitments**		**2021 Exposure**		2020 Exposure
Gross exposure			**$**	**%**	$	%
Domestic market	**1,808**	**584**	**2,392**	**67**	1,730	62
Other advanced economies	**133**	**49**	**182**	**5**	155	5
Emerging markets	**766**	**251**	**1,017**	**28**	917	33
Total	**$ 2,707**	**$ 884**	**$ 3,591**	**100**	$ 2,802	100

Table 10: Claims – Size Concentration

(in millions of Canadian dollars)				**2021**				2020
	$ of claims paid	**Number of claims paid**	**$ of claims recoveries**	**Number of claims with recoveries**	$ of claims paid	Number of claims paid	$ of claims recoveries	Number of claims with recoveries
$0 – $100,000	**10**	**446**	**4**	**376**	20	925	3	331
$100,001 – $1 million	**23**	**88**	**9**	**33**	49	184	9	24
Over $1 million	**21**	**10**	**5**	**3**	95	27	15	4
Total	**$ 54**	**544**	**$ 18**	**412**	$ 164	1,136	$ 27	359



CONSOLIDATED FINANCIAL STATEMENTS

Financial Reporting Responsibility

The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with International Financial Reporting Standards appropriate in the circumstances. The integrity and objectivity of the data in these consolidated financial statements are management's responsibility. It is necessary for management to make assumptions, estimates and judgments based on information available as at the date of the financial statements. Areas where management has made significant estimates, assumptions and judgments include the allowance for losses on loans, loan commitments and loan guarantees, premium and claims liabilities, financial instruments measured at fair value, retirement benefit obligations and the determination of the control of structured entities. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the consolidated financial statements.

In support of its responsibility, management maintains financial, management control and information systems and management practices to provide reasonable assurance that the financial information is reliable, that the assets are safeguarded, that the transactions are properly authorized and are in accordance with the relevant legislation, by-laws of the Corporation and Government directives, and that the operations are carried out effectively. We have an internal audit department whose functions include reviewing internal controls and their application, on an ongoing basis.

The Board of Directors is responsible for the management of our business and activities. In particular, it is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which is composed of Directors who are not employees of EDC. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis.

Contracts which, in our opinion, involve risks in excess of that which we would normally undertake, may be entered into under the authority of the Minister of International Trade, Export Promotion, Small Business and Economic Development and the Minister of Finance where the Minister of International Trade, Export Promotion, Small Business and Economic Development considers them to be in the national interest. Funds required for such contracts are paid to EDC by the Minister of Finance out of the Consolidated Revenue Fund, and funds recovered are remitted to the Consolidated Revenue Fund, net of amounts withheld to cover related administrative expenses. These transactions, which are known as Canada Account transactions, are shown in Note 33 to our Consolidated Financial Statements, and the responsibility of the Board of Directors for these transactions is limited to the management of the administration thereof by EDC.

The Auditor General of Canada conducts an independent audit, in accordance with Canadian generally accepted auditing standards, and expresses her opinion on the consolidated financial statements. Her report is presented on the following page.

Mairead Lavery

Mairead Lavery
President and Chief Executive Officer

Ken Kember
Senior Vice-President and Chief Financial Officer

March 9, 2022

Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

Independent Auditor's Report

To the Minister of International Trade, Export Promotion, Small Business and Economic Development

Report on the Audit of the Consolidated Financial Statements

OPINION

We have audited the consolidated financial statements of Export Development Canada and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Compliance with Specified Authorities

OPINION

In conjunction with the audit of the consolidated financial statements, we have audited transactions of Export Development Canada and its wholly-owned subsidiaries coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Export Development Act* and regulations, the by-laws of Export Development Canada, the charters and by-laws of its wholly-owned subsidiaries, and the directives issued pursuant to Section 89 of the *Financial Administration Act* described in Note 1 to the consolidated financial statements.

In our opinion, the transactions of Export Development Canada and its wholly-owned subsidiaries that came to our notice during the audit of the consolidated financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied on a basis consistent with that of the preceding year.

RESPONSIBILITIES OF MANAGEMENT FOR COMPLIANCE WITH SPECIFIED AUTHORITIES

Management is responsible for Export Development Canada and its wholly-owned subsidiaries' compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable Export Development Canada and its wholly-owned subsidiaries to comply with the specified authorities.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF COMPLIANCE WITH SPECIFIED AUTHORITIES

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the consolidated financial statements are in compliance with the specified authorities referred to above.

Normand Lanthier, CPA, CA
Principal
for the Auditor General of Canada

Ottawa, Canada
9 March 2022

Export Development Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at December 31

(in millions of Canadian dollars)	Notes	**2021**	2020
Assets			
Cash		**207**	182
Marketable securities	4	**9,082**	10,563
Derivative instruments	13	**1,139**	2,126
Loans receivable	5	**48,345**	54,722
Allowance for losses on loans	5	**(1,760)**	(2,630)
Investments	6	**2,707**	2,032
Reinsurers' share of premium and claims liabilities	15	**110**	150
Property, plant and equipment	8	**44**	40
Intangible assets	9	**63**	84
Right-of-use assets	10	**127**	123
Retirement benefit assets	31	**346**	45
Other assets	7	**205**	260
Total Assets		**$ 60,615**	$ 67,697
Liabilities and Equity			
Accounts payable and other credits	11	**185**	179
Loans payable	12	**43,525**	45,020
Derivative instruments	13	**1,003**	1,623
Lease liabilities	10	**158**	153
Loan guarantees	5, 17	**188**	300
Allowance for losses on loan commitments	5	**20**	50
Premium and claims liabilities	15	**670**	820
Retirement benefit liabilities	31	**226**	262
Total Liabilities		**45,975**	48,407
Financing commitments (Note 16) and contingent liabilities (Note 17)			
Share capital	19	**12,300**	12,300
Retained earnings		**2,340**	6,990
Total Equity		**14,640**	19,290
Total Liabilities and Equity		**$ 60,615**	$ 67,697

The accompanying notes are an integral part of these consolidated financial statements.

These consolidated financial statements were approved for issuance by the Board of Directors on March 9, 2022.

Robert S. McLeese
Director

Mairead Lavery
Director

Export Development Canada

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended December 31

(in millions of Canadian dollars)	Notes	2021	2020
Financing and Investment Revenue:			
Loans	25	**1,462**	1,830
Marketable securities		**82**	165
Investments		**16**	14
Total financing and investment revenue		**1,560**	2,009
Interest expense	26	**324**	760
Financing-related expenses		**25**	26
Net Financing and Investment Income		**1,211**	1,223
Loan Guarantee Fees		**97**	55
Insurance premiums and guarantee fees		**285**	265
Reinsurance ceded		**(33)**	(35)
Net Insurance Premiums and Guarantee Fees	27	**252**	230
Other (Income) Expense	29	**(741)**	(195)
Administrative Expenses	30	**619**	556
Income before Provision and Claims-Related Expenses		**1,682**	1,147
Provision for (Reversal of) Credit Losses	5	**(554)**	2,083
Claims-related expenses (recovery)		**(84)**	424
Reinsurers' share of claims-related expenses (recovery)		**33**	(8)
Net Claims-Related Expenses (Recovery)	28	**(51)**	416
Net Income (Loss)		**2,287**	(1,352)
Other comprehensive income (loss):			
Retirement benefit plans remeasurement	31	**343**	(81)
Comprehensive Income (Loss)		**$ 2,630**	$ (1,433)

The accompanying notes are an integral part of these consolidated financial statements.

All items presented in other comprehensive income will not be reclassified to net income in subsequent periods.

Export Development Canada

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended December 31

(in millions of Canadian dollars)	Notes	**2021**	2020
Share Capital			
Balance beginning of year		**12,300**	1,333
Shares issued	19	**–**	10,967
Balance end of year		**12,300**	12,300
Retained Earnings			
Balance beginning of year		**6,990**	8,423
Net income (loss)		**2,287**	(1,352)
Other comprehensive income (loss):			
Retirement benefit plans remeasurement		**343**	(81)
Dividends	19	**(7,280)**	–
Balance end of year		**2,340**	6,990
Total Equity End of Year		**$ 14,640**	$ 19,290

The accompanying notes are an integral part of these consolidated financial statements.

Export Development Canada

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended December 31

(in millions of Canadian dollars)	**2021**	2020
Cash Flows from (used in) Operating Activities		
Net income (loss)	**2,287**	(1,352)
Adjustments to determine net cash from (used in) operating activities		
Provision for (reversal of) credit losses	**(554)**	2,083
Change in the net allowance for claims on insurance	**(89)**	279
Depreciation and amortization	**32**	39
Realized (gains) and losses	**(315)**	(128)
Changes in operating assets and liabilities		
Change in fair value of investments and accrued interest on loans receivable	**(394)**	(233)
Change in accrued interest and fair value of marketable securities	**185**	(98)
Change in accrued interest and fair value of loans payable	**(473)**	361
Change in derivative instruments	**552**	(261)
Other	**41**	20
Loan disbursements	**(16,196)**	(25,345)
Loan repayments and principal recoveries from loan asset sales	**20,982**	21,965
Net cash from (used in) operating activities	**6,058**	(2,670)
Cash Flows from (used in) Investing Activities		
Disbursements for investments	**(413)**	(387)
Receipts from investments	**440**	189
Purchases of marketable securities	**(7,706)**	(8,354)
Sales/maturities of marketable securities	**7,775**	10,249
Purchases of property, plant and equipment	**(7)**	(6)
Purchases of intangible assets	**(1)**	(2)
Net cash from (used in) investing activities	**88**	1,689
Cash Flows from (used in) Financing Activities		
Issue of long-term loans payable	**7,205**	11,922
Repayment of long-term loans payable	**(10,807)**	(13,606)
Issue of short-term loans payable	**25,216**	30,321
Repayment of short-term loans payable	**(21,719)**	(36,858)
Disbursements from sale/maturity of derivative instruments	**(34)**	(200)
Receipts from sale/maturity of derivative instruments	**114**	88
Issue of share capital	**–**	10,967
Dividend paid	**(7,280)**	–
Net cash from (used in) financing activities	**(7,305)**	2,634
Effect of exchange rate changes on cash and cash equivalents	**(24)**	(62)
Net increase (decrease) in cash and cash equivalents	**(1,183)**	1,591
Cash and cash equivalents		
Beginning of year	**2,876**	1,285
End of year	**$ 1,693**	$ 2,876
Cash and cash equivalents are comprised of:		
Cash	**207**	182
Cash equivalents included within marketable securities	**1,486**	2,694
	$ 1,693	$ 2,876
Operating Cash Flows from Interest		
Cash paid for interest	**$ 435**	$ 891
Cash received for interest	**$ 1,461**	$ 1,877

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Corporate Mandate

Export Development Canada ("EDC", "we" or "our") was created in 1944 as Canada's export credit agency (ECA). On October 1, 1969, EDC was established as a Crown corporation by a statute of the Parliament of Canada, the *Export Development Act* (the "Act"). EDC's mandate is to support and develop, directly or indirectly, Canada's export trade, and Canadian capacity to engage in that trade and respond to international business opportunities, as well as to provide development financing and other forms of development support in a manner consistent with Canada's international development priorities. In March of 2020, to respond to the economic impacts of COVID-19, the Government of Canada temporarily expanded EDC's mandate from March 26, 2020 to December 31, 2021 to include supporting and developing, directly or indirectly, domestic business at the request of the Minister of International Trade, Export Promotion, Small Business and Economic Development and the Minister of Finance. On December 1, 2021, the Ministers extended these domestic powers until December 31, 2022, with guidance as to their application provided by the Ministers to EDC.

EDC is named in Part I of Schedule III to the *Financial Administration Act* (the "FA Act") and is accountable for its affairs to Parliament through the Minister of International Trade, Export Promotion, Small Business and Economic Development (the "Minister").

In 2008, EDC was given and implemented a directive (PC 2008-1598) pursuant to Section 89 of the FA Act, directing parent Crown corporations involved in commercial lending to give due consideration to the personal integrity of those they lend to or provide benefits to, in accordance with the Federal Government's policy to improve the accountability and integrity of federal institutions.

In July 2015, EDC, together with other federal Crown corporations, was issued a directive (PC 2015-1110) pursuant to Section 89 of the FA Act to align our travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with our legal obligations. We have complied with the directive in a way that does not hinder our ability to deliver on our mandate for Canadian companies.

In 2017, EDC completed its compliance with the directive PC 2017-127. This directive intended to ensure equitable and balanced cost-sharing between employee and employer for pension contributions, and set the normal retirement age at 65.

In June 2018, EDC was issued a directive (PC 2018-683) pursuant to Section 89 of the FA Act to perform any activity consistent with any authorization obtained from the Minister pursuant to Section 23 of the Act (Canada Account) in respect of the project known as the Trans Mountain Pipeline Expansion (the "Project"). We have complied with the directive by performing all required activities described in the authorization obtained from the Minister on June 5, 2018, as amended by the authorization obtained from the Minister on July 27, 2018 save and except for the indemnity transaction contemplated in paragraph 3 of the authorization of June 5, 2018 as this part of the authorization has not yet been implemented. EDC has further implemented the directive by performing all required activities described in the authorization obtained from the Minister on July 8, 2019 and further amendments thereto on August 31, 2020 and September 28, 2020.

In August 2019, EDC was issued a directive (PC 2019-1190) pursuant to Section 89 of the FA Act to lend monies to General Dynamics Land Systems – Canada Corporation in accordance with any authorization obtained from the Minister pursuant to Section 23 of the Act (Canada Account). We have complied with this directive by performing required activities consistent with the authorization obtained from the Minister on August 19, 2019. In 2021, the monies have been fully repaid by General Dynamics Land Systems – Canada Corporation.

In March 2020, EDC was issued a directive (PC 2020-206) pursuant to Section 89 of the FA Act to perform any activity consistent with any authorization obtained from the Minister pursuant to Section 23 of the Act as part of the response to COVID-19; to support and develop domestic business in accordance with paragraph 10(1)(a) of the Act as part of that response; and to take any ancillary or other measures that may be advisable or necessary to give effect to the directive. EDC has obtained from the Minister an authorization in respect of the Canada Emergency Business Account (CEBA) on April 5, 2020 and further amendments thereto on April 8, April 13, April 16, May 19, and October 20, 2020. EDC has implemented and continues to implement the directive by performing all required activities consistent with the authorization. EDC continues to carry out all activities as may be advisable or required to give effect to the directive and authorization. With respect to domestic support, EDC continues to implement the directive and to carry out all activities as may be advisable or required to give effect to the directive, in accordance with the guidance of the Minister of International Trade, Export Promotion, Small Business and Economic Development and the Minister of Finance.

In August 2021, EDC was issued a directive (PC 2021-850) pursuant to Section 89 of the FA Act to perform any activity in accordance with any authorization obtained from the Minister pursuant to Section 23 of the Act (Canada Account) in respect of the Telesat program known as Telesat Lightspeed and to do any other thing that may be required or advisable to give effect to the directive. The transaction described in the authorization obtained from the Minister on August 6, 2021 is in the process of being implemented and we are complying with this directive by performing required activities consistent with the authorization.

In August 2021, EDC was issued a directive (PC 2021-891) pursuant to Section 89 of the FA Act to perform any activity in accordance with any authorization obtained from the Minister pursuant to Section 23 of the Act (Canada Account) in respect of Lower Churchill Projects in Newfoundland and Labrador and to do any other thing that may be required or advisable to give effect to the directive. The authorization obtained from the Minister on August 14, 2021 was amended, restated and superseded by a subsequent authorization provided by the Minister on December 20, 2021 (the “December Authorization”). The transaction described in the December Authorization is in the process of being implemented and we are complying with this directive by performing required activities consistent with the December Authorization.

The Government of Canada is the sole shareholder of EDC.

We incorporated Exinvest Inc. as a wholly-owned subsidiary under the *Canada Business Corporations Act* in 1995.

In May 2017, for the purposes of creating a Canadian Development Finance Institution, the Government of Canada broadened EDC’s mandate and scope of activity to include providing, directly or indirectly, development financing and other forms of development support in a manner that is consistent with Canada’s international development priorities. Development Finance Institute Canada (DFIC) Inc. was incorporated under the *Canada Business Corporations Act* in September 2017 as a wholly-owned subsidiary of EDC, and began operations under the trade name FinDev Canada in January 2018.

Our earnings and those of our subsidiaries are not subject to the requirements of the *Income Tax Act*.

We are subject to a limit imposed by the Act on our contingent liability arrangements. The Act specifies that the limit applies to the principal amount owing under all outstanding arrangements which have the effect of providing, to any person, any insurance, reinsurance, indemnity or guarantee. This limit is currently $90.0 billion. At the end of December 2021, the amount of these contingent liabilities was $33.0 billion (2020 – $33.2 billion).

We are for all purposes an agent of Her Majesty in right of Canada. As a result, all obligations under debt instruments we issue are obligations of Canada. The Act allows us to borrow and have outstanding borrowings up to a maximum of 15 times the aggregate of (a) our current paid-in capital and (b) our retained earnings determined in accordance with the most recent audited financial statements. The maximum applicable to December 31, 2021 is $289.4 billion (2020 – $310.8 billion), against which borrowings amounted to $43.5 billion (2020 – $45.0 billion).

2. Impact of COVID-19

The World Health Organization officially declared the outbreak of COVID-19 a pandemic on March 11, 2020. The COVID-19 pandemic continues to impact the global economy. The overall economy continues to navigate the pandemic with continuing uncertainty even as vaccinations are being distributed throughout the world. As a result, we continue to operate in an uncertain macroeconomic environment.

IMPACT ON ESTIMATES AND JUDGMENTS

As disclosed in Note 3, the preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and judgments that affect the recognized and measured amounts of assets, liabilities, net income, comprehensive income and related disclosures. The COVID-19 pandemic has given rise to heightened uncertainty and increased the need to apply judgment in evaluating the economic environment and its impact on significant estimates. This uncertainty has increased the level of judgment applied in estimating the allowance for credit losses (see Note 5) and premiums and claims liabilities (see Note 15). Actual results could vary significantly from these estimates and judgments.

3. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The significant accounting policies used in the preparation of these consolidated financial statements are summarized on the following pages and conform in all material respects to IFRS.

Certain comparative industry figures in the notes to the consolidated financial statements have been reclassified from the Standard Industry Classification (SIC) to the North America Industry Classification System (NAICS) in order to align with our shareholder's standards on industry data reporting. The industry reclassification impacts Notes 5 and 22.

BASIS OF CONSOLIDATION

Our consolidated financial statements include the assets, liabilities, results of operations and cash flows of our wholly-owned subsidiaries and those structured entities consolidated under *IFRS 10 – Consolidated Financial Statements*. Intercompany transactions and balances have been eliminated.

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

New Standards, Amendments and Interpretations

The following amendment issued by the IASB has been assessed as being relevant to EDC. The changes were adopted for the annual period beginning on January 1, 2021.

Interest Rate Benchmark Reform – Phase 2

In August 2020, the IASB issued amendments to *IFRS 9 – Financial Instruments*, *IAS 39 – Financial Instruments: Recognition and Measurement*, *IFRS 7 – Financial Instruments: Disclosures*, *IFRS 4 – Insurance Contracts* and *IFRS 16 – Leases* to address the reforms related to the interest rate benchmark.

The amendments include changing the effective interest rate of financial instruments to reflect the change to the alternative benchmark rate, as well as additional disclosures about new risks arising from the reform and how we are managing the transition to alternative benchmark rates. For financial assets and financial liabilities measured at amortized cost, the amendments introduce a practical expedient that allows the change in contractual cash flows to be accounted for as an update to the effective interest rate, as opposed to immediately recognizing a gain or loss, provided that the modification is made on an economically equivalent basis and is a direct consequence of interest rate benchmark reform.

Certain loans receivable measured at amortized cost were transitioned to a new interest rate benchmark in 2021 as disclosed in Note 5.

Transition to Alternative Benchmark Rates

We are focused on key activities including enhancing existing systems and processes as well as converting our existing loan and debt agreements using the new relevant alternative benchmark rates. The transition has been broken down into two stages – Stage 1 was focused on the LIBOR currencies and settings with a cessation date of December 31, 2021 (all Sterling, Euro, Swiss Franc and Japanese Yen settings), while Stage 2 will focus on the USD LIBOR currency and settings with a cessation date of June 30, 2023.

As at December 31, 2021, Stage 1 is complete. The key outcome in 2021 was the amendment of existing impacted products and new products to the new risk-free rates. This included system, process and operational readiness, training, and ensuring appropriate support for our customers and customer-facing teams.

The interest rate benchmark reform has not resulted in changes to our risk management strategy and we have assessed the overall risk arising from the transition to be low.

The following table shows our exposures to financial instruments that continue to reference interest rate benchmarks that are subject to the reform and are yet to transition:

(in millions of Canadian dollars)			**Dec. 31, 2021**
	Non-derivative financial assets	**Derivatives (receive leg) – notional amount**	**Derivatives (pay leg) – notional amount**
USD Libor (1 month)	3,682	–	1,266
USD Libor (3 months)	6,588	6,509	4,069
USD Libor (6 months)	5,636	570	1,266
USD Libor (Other)	408	–	–
	16,314	7,079	6,601
Cross currency swaps	–	198	11,097
Total	$ 16,314	$ 7,277	$ 17,698

We have no exposure to loan commitments that reference interest rate benchmarks. The reference rate has not yet been established for any future loan disbursements under our committed loan facilities.

Standards, Amendments and Interpretations not yet in effect

The following standards and amendments issued by the IASB have been assessed as having a possible effect on EDC in the future. We are currently assessing the impact of these standards and amendments on our consolidated financial statements:

IFRS 17 – Insurance Contracts – In May 2017, the IASB issued IFRS 17 which establishes recognition, measurement, presentation, and disclosure requirements of insurance contracts. The standard requires entities to measure the contract liabilities using their current fulfillment cash flows and revenue to be recognized using one or more of three methods. We are planning to adopt two of these methods – the General Measurement Model and the Premium Allocation Approach to measure insurance contracts. IFRS 17 is effective for annual periods beginning on or after January 1, 2023.

The IFRS 17 standard is highly relevant to EDC and will impact our consolidated financial statements and related disclosures, however the impact cannot be reasonably estimated at this time.

USE OF ESTIMATES AND KEY JUDGMENTS

To prepare our consolidated financial statements in accordance with IFRS, it is necessary for management to exercise judgment and make use of estimates and assumptions in applying certain accounting policies. We utilize current market data, our own historical experience and other information available to us as at the date of the financial statements in arriving at our decisions. We have established procedures to ensure that the process for determining our estimates and assumptions is well controlled and occurs in an appropriate and systematic manner.

Uncertainty is inherent in the use of estimates and assumptions and, as a result, actual results may vary significantly from management's estimates. Uncertainty arises, in part, from the use of historical experience and data at a point in time to establish our assumptions. While this data may be the most reliable basis available on which to base our assumptions, economic events may occur subsequently that render previous assumptions invalid and cause a material change to actual results.

Areas where management has made significant use of estimates and exercised judgment are discussed below.

Estimates

Note 5 – Loans and Allowance for Credit Losses

The allowance for losses on loans, loan commitments and loan guarantees represents management's best estimate of expected credit losses (ECL). These estimates are reviewed periodically during the year and in detail as at the date of the financial statements.

The purpose of the allowance is to provide an estimate of expected credit losses inherent in the loan portfolio. Estimation is inherent in the assessment of forward-looking probabilities of default, loss severity in the event of default (also referred to as loss given default), review of credit quality and the value of any collateral. Management also considers the impact of forward-looking macroeconomic factors including current and future economic events, industry trends and risk concentrations on the portfolio and the required allowance.

Allowances are established on an individual basis for loans, loan commitments and loan guarantees that management has determined to be impaired and/or for which losses have been incurred. When an obligor is considered impaired, we reduce the carrying value of the loan to its net realizable value. Management is required to make a number of estimates including the timing and amount of future cash flows and the residual values of the underlying collateral.

Note 15 – Premium and Claims Liabilities

The premium and claims liabilities are based on our estimate of future claims under the terms and conditions of our insurance policies. The actuarial valuation uses simulation techniques and is based on assumptions relevant to the insurance products and is derived in conjunction with our own experience. The actuarial calculation of the premium and claims liabilities uses key management assumptions for frequency of claims, severity of loss, future claim development, administrative expenses, relevant discount rates and margins for adverse deviations.

Note 21 – Fair Value of Financial Instruments

The majority of financial instruments are recognized on our Consolidated Statement of Financial Position at their fair value. These financial instruments include marketable securities, recoverable insurance claims, derivative instruments, investments and loans payable designated at fair value through profit or loss. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Our financial instruments are categorized into one of three levels based on whether the techniques employed to value the instruments use observable or unobservable market inputs. Financial instruments categorized as Level 1 are valued using quoted market prices, thus minimal estimation is required. Those instruments categorized as Level 2 and 3 require the use of greater estimation and judgment, and level 3 instruments include inputs that are not based on observable market data.

Note 31 – Retirement Benefit Plans

EDC maintains two pension plans with defined benefit and defined contribution components, and other post-retirement benefit plans including a retiring allowance plan and life insurance, health and dental care benefits. IFRS requires that management measure the plans' defined benefit obligations and annual costs using assumptions that are long-term in nature and reflect our best estimates. We review key assumptions on an annual basis with our actuaries using relevant experience, in conjunction with market related data. The key assumptions include expected rates of compensation increase, discount rates, inflation rate, longevity of plan members, and health care costs.

Judgments

Note 5 – Loans and Allowance for Credit Losses

Management judgment is used in the ECL calculation as it pertains to the application of forward-looking information to support future events and historical behaviour patterns in determining the expected life of a financial instrument. Judgment is also used in assessing significant increase in credit risk.

Note 15 – Premium and Claims Liabilities

Judgment is used in selecting the severity of loss, future claim development, frequency of claim, discount rate and the confidence level for adverse deviation in the calculation of our insurance premium and claims liabilities.

Note 21 – Fair Value of Financial Instruments

The categorization of our financial instruments into three fair value hierarchy levels requires judgment. Our policy is to recognize transfers into and out of these levels at the date of the event or change in circumstances that caused the transfer. Quantitative disclosure is provided for all transfers among all levels regardless of their significance.

Financial instruments categorized as Level 2 and 3 require significant judgment in the selection of appropriate discount rates, yield curves and other inputs into our models which may not be based on observable market data.

Note 24 – Structured Entities

A structured entity (SE) is defined as an entity created to accomplish a narrow and well-defined objective. Management exercises judgment in determining whether EDC has control of structured entities. When we have power over an SE and are exposed, or have rights to variable returns from our involvement with an SE and have the ability to affect those returns through our power over the SE, we are considered to control the SE and the SE is consolidated within our financial statements. When the criteria for control are not met, SEs are not consolidated.

Note 31 – Retirement Benefit Plans

The management assumption with the greatest potential impact on our defined benefit obligations is the discount rate. Management judgment is used in the determination of the discount rate, which is set by reference to the yield of a portfolio of high-quality fixed income instruments (rated AA or higher), that match the timing of the expected benefit payments.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of cash and short-term highly liquid marketable securities with a term to maturity of 90 days or less from the date of their acquisition, are considered highly liquid, readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash equivalents are included within marketable securities on the Consolidated Statement of Financial Position.

MARKETABLE SECURITIES

We hold marketable securities for liquidity purposes. Our marketable securities are held with creditworthy counterparties that must have a minimum credit rating from an external credit rating agency of A- for all transactions.

Marketable securities held directly by EDC are recorded at fair value through profit or loss to reflect our business model for managing these instruments. Purchases and sales of marketable securities are recorded on the trade date and the transaction costs are expensed as incurred. Interest revenue is recorded in marketable securities revenue in the Consolidated Statement of Comprehensive Income. Realized and unrealized gains and losses on these securities are included in other (income) expenses in the Consolidated Statement of Comprehensive Income.

LOANS RECEIVABLE

Loans receivable are recorded at fair value upon initial recognition and subsequently measured at amortized cost using the effective interest method. Our loans receivable are held in order to collect contractual cash flows which represent payments of principal, interest and fees. They are derecognized when the rights to receive cash flows have expired or we have transferred substantially all the risks and rewards of ownership. A loan payment is considered past due when the obligor has failed to make the payment by the contractual due date.

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period in financing and investment revenue in the Consolidated Statement of Comprehensive Income. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset. When calculating the effective interest rate, we estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but do not consider future credit losses. The calculation includes all fees paid or received that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Deferred loan revenue, which consists of exposure, administration and other upfront fees, is considered an integral part of the effective interest rate and is amortized over the term of the related loan.

While it is generally our intention to hold performing loan assets until maturity, in some cases the loans are sold prior to maturity for risk mitigation purposes. Gains and losses on the sale of performing loans are included in other (income) expenses. Losses on sales of impaired loans are reported in the provision for (reversal of) credit losses.

LOAN GUARANTEES

In the ordinary course of business we issue loan guarantees to cover non-payment of principal, interest and fees due to financial institutions providing loans to Canadian exporters or buyers of Canadian goods and services. Loan guarantees are initially recognized in the financial statements at fair value in the liability for loan guarantees. Fair value is determined to be the guarantee fee received. Subsequent to initial recognition, our liability is measured at the higher of the unamortized guarantee fees and the allowance calculated that estimates the loss anticipated to be incurred as a result of satisfying our obligation under that guarantee.

Any change in liability relating to the allowance on loan guarantees is recorded in the Consolidated Statement of Comprehensive Income in the provision for (reversal of) credit losses. Guarantee fees, including deferred guarantee fees, are recognized in the Consolidated Statement of Comprehensive Income on a straight-line basis over the life of the guarantee, as performance obligations are satisfied.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses represents management's best estimate of expected credit losses and is based on the expected credit loss model.

Financial instruments subject to an impairment assessment include loans held at amortized cost. The allowance for credit losses related to loans receivable is presented in the allowance for losses on loans in the Consolidated Statement of Financial Position.

Off-balance sheet items subject to an impairment assessment include loan commitments and loan guarantees. The allowance for credit losses related to loan commitments is presented in the allowance for losses on loan commitments and the allowance for credit losses related to loan guarantees is included in the liability for loan guarantees in the Consolidated Statement of Financial Position.

Changes in the allowance for credit losses as a result of originations, repayments and maturities, changes in risk parameters, remeasurements and modifications are recorded in the provision for (reversal of) credit losses in our Consolidated Statement of Comprehensive Income.

Expected Credit Loss (ECL) Impairment Model

The ECL model applies a three-stage approach to measure the allowance for credit losses. At initial recognition financial instruments are placed in Stage 1. ECLs are measured based on the stage assignment of the financial instrument:

- *Stage 1* – Where there has not been a significant increase in credit risk since origination, the allowance recorded is based on the expected credit losses resulting from defaults over the next 12-months;
- *Stage 2* – Where there has been a significant increase in credit risk since origination, the allowance recorded is based on the ECLs over the remaining lifetime of the financial instrument; and
- *Stage 3* – Where a financial instrument is considered impaired, the allowance recorded is based on the ECLs over the remaining lifetime of the instrument and interest revenue is calculated based on the carrying amount of the instrument, net of the loss allowance, rather than on its gross carrying amount.

Impairment and Write-off of Financial Instruments

Under EDC's definition of default on loans receivable and loan commitments, financial instruments are considered to be in default and placed in Stage 3 when they meet one or both of the following criteria which represent objective evidence of impairment:

- there has been a deterioration in credit quality to the extent that EDC considers that the obligor is unlikely to pay its credit obligations to EDC in full; or
- the obligor is past due more than 90 days on any credit obligation to EDC, as required under IFRS 9.

If there is objective evidence that an impairment loss has occurred on an individual loan or loan commitment, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of any estimated future cash flows discounted at the loan's original effective interest rate. The carrying value of the loan is reduced through the use of an individual allowance.

Thereafter, interest income on individually impaired loans is recognized based on the reduced carrying value of the loan using the original effective interest rate of the loan.

Impaired loan guarantees are identified by applying the same criteria to the underlying loan that is used to assess the impairment of direct loans carried at amortized cost. When the underlying loan is individually assessed to be impaired, it is probable that a call on the guarantee will be made representing an outflow of economic benefits that would be required to settle our obligation under the guarantee. Should there be a cash outflow related to a call on an impaired guarantee, in most cases we would not consider the associated newly originated loan to be a purchase or origination of a credit impaired asset.

Loans and the related allowance for credit losses are written off, either partially or in full, when all collection methods, including the realization of collateral, have been exhausted and no further prospect of recovery is likely.

Loans are returned to performing status when it is likely that contractual payments will continue pursuant to the terms of the loan.

Measurement of ECLs

The ECL calculation along with the stage assignment considers reasonable and supportable information about past events, current conditions and forecasts of future economic events. The estimation and application of forward-looking information, using both internal and external sources of information, requires significant judgment.

The ECL model is a function of the probability of default (PD), loss given default (LGD), and exposure at default (EAD) of a specific obligor or group of obligors with like characteristics such as industry and country classification as well as credit risk rating, discounted to the reporting date using the effective interest rate, or an approximation thereof. PD is modelled based on current and historic data along with relevant forward-looking macroeconomic factors to estimate the likelihood of default over a given time horizon. LGD is an estimate of the percentage of exposure that will be lost if there is a default on a specific obligor. EAD is modelled based on cash flow expectations which include contractual terms as well as forward-looking repayment and draw patterns and represents the outstanding exposure at the time of default.

Forward-Looking Information

ECLs are calculated using forward-looking information determined from reasonable and supportable forecasts of future economic conditions as at the reporting date. The ECL model does not consider every possible scenario but reflects a representative sample of three possible outcomes. The scenarios used are not biased towards extremes, reflect consistency among variables and are probability-weighted.

In addition to a baseline macroeconomic outlook, EDC also produces two alternative outlooks. These alternative forecasts leverage our country risk and industry analysts in our Economics team to identify and vet key upside and downside scenario possibilities, considering their impacts and probability of occurrence. The scenarios are reviewed quarterly for ongoing relevance.

The macroeconomic variables considered in the determination of the scenarios have been established to be key drivers of a global macroeconomic outlook and influential to EDC's loan portfolio and include, but are not limited to, gross domestic product, commodity prices, equity indices, bond yields and unemployment rates. The macroeconomic variables are applied in the ECL model based on the industry classification for the corporate portfolio, and based on the country for sovereign loans. We also assess the extent to which these variables may not reflect recent economic events that may result in credit deterioration. In these cases we will estimate the potential impact on our allowances and apply market overlays to specific industries or other exposure categories that we deem appropriate.

Significant Increase in Credit Risk

At each reporting date, an assessment of whether a significant increase in credit risk has taken place since the initial recognition of the financial instrument is performed. The assessment, which does not use the low credit risk exemption allowed under IFRS 9, requires significant judgment and considers the following factors:

- a threshold based on a relative change in the probability of default for the remaining expected life of the instrument relative to the corresponding probability of default at origination;
- qualitative information available as at the reporting date; and
- days past due.

Any exposure that is 30 days past due is placed in Stage 2. Any exposure that is 90 days past due is considered impaired and placed in Stage 3.

Assets can move in both directions through the stages of the impairment model. If, in a subsequent period, the credit quality improves for an instrument in Stage 2 such that the increase in credit risk since initial recognition is no longer considered significant, the instrument will move to Stage 1 and the loss allowance shall revert to being recognized based on the 12-month expected credit losses.

Modifications

In situations where a borrower experiences financial difficulty, we may grant certain modifications to the terms and conditions of a loan. An assessment is done to determine if the loan should be derecognized. If the modification does not result in derecognition, the date of origination continues to be used to assess significant increase in credit risk. If the modification results in derecognition, a new loan is recognized based on the new contractual terms and is placed in Stage 1. Loans that are credit-impaired upon origination are placed in Stage 3, and the lifetime ECLs are reflected in the initial fair value. In subsequent reporting periods, we recognize only the cumulative changes in the lifetime ECLs since initial recognition as an allowance for credit losses. Changes in ECLs are recognized in the provision for (reversal of) credit losses on the Consolidated Statement of Comprehensive Income.

The Paris Club is an international forum of sovereign creditors, including Canada, who agree to formally reschedule sovereign borrowers' debt when they are experiencing financial difficulties and are unable to meet their obligations. Sovereign loans that are considered in default by the Paris Club are classified as individually impaired. Consistent with the terms of Paris Club rescheduling agreements, contractual interest maturities for individually impaired sovereign loans are included in gross loans receivable.

FORECLOSED ASSETS

Assets that are returned to us[(1)] because of default under loan agreements are classified as held for use or held for sale according to management's intention. The assets are recorded initially at fair value less costs to sell, when applicable, and are included in other assets on the Consolidated Statement of Financial Position. Any write-downs at recognition are reported in the provision for (reversal of) credit losses and any gains are recorded in other (income) expenses. Subsequent impairment losses or reversals of impairment losses are determined as the difference between the carrying amount and the recoverable amount and are recorded in other (income) expenses for the held-for-sale portfolio and in leasing and financing-related expenses for the held-for-use portfolio. We determine fair value based on market prices obtained from an independent appraiser along with current market data and other information available to us.

INVESTMENTS

Investments are comprised of direct investments that we hold in private and public companies and investments in private equity funds. Purchases and sales of these investments are recorded on a trade-date basis and are measured at fair value. Subsequent changes in fair value and any realized gains and losses are recorded in other (income) expenses. Transaction costs are expensed as incurred and included within leasing and financing-related expenses.

LEASES

At the inception of a contract, as lessee, we assess whether the contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. In our assessment of whether a contract conveys the right to use an asset, we consider whether EDC has:

- access to a physically identifiable asset either explicitly or implicitly within the contract;
- the right to obtain substantially all of the economic benefits from use of the identified asset; and
- the right to direct the use of the identified asset.

We recognize right-of-use assets and lease liabilities at the lease commencement date. At initial recognition, right-of-use assets are measured at cost and are subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, right-of-use assets are reviewed annually for indications of impairment. If indications exist, the carrying value is analyzed to determine whether it is fully recoverable. An impairment loss is recognized when an asset's carrying amount exceeds its recoverable amount. An impairment loss is recorded in administrative expenses to write down the carrying value to recoverable amount.

Our right-of-use assets have three classes of underlying assets: head office building, other office space and computer hardware. We account for lease components and non-lease components separately for each of our asset classes. We do not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less or are of a low value. Lease payments associated with these leases are recognized as an expense as they are incurred.

(1) *All aircraft returned to us for which the equity interest in the leveraged lease structure has been foreclosed have been registered with a number of trusts of which we are exposed, or have rights, to variable returns from our involvement with a structured entity and have the ability to affect those returns through our decision-making power over the structured entity.*

Lease liabilities are initially measured at the present value of lease payments and discounted using the interest rate implicit in the lease or, if not available, EDC's incremental borrowing rate. Subsequently, the lease liability is measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change to the term of the lease. When a lease is remeasured, a corresponding adjustment is also made to the carrying amount of the right-of-use asset or is recognized as a gain or loss in other (income) expense if the carrying amount of the right-of-use asset is nil.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets or the term of the relevant lease. The estimated useful lives and depreciation methods are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. The useful life used in the calculation of depreciation for furniture and equipment is five years and varies from three to five years for computer hardware. Leasehold improvements are depreciated over the shorter of the term of the respective lease or the useful economic life of the leasehold improvement. Depreciation is recorded in administrative expenses.

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in other (income) expenses.

INTANGIBLE ASSETS

Intangible assets represent internally developed and purchased computer software. They are carried at cost less accumulated amortization and impairment losses. Amortization is charged on a straight-line basis over the estimated useful lives of the intangible assets, which currently vary from five to ten years. The estimated useful lives and amortization methods are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Amortization is recorded in administrative expenses.

Intangible assets are reviewed annually for indications of impairment. If indications exist, the carrying value is analyzed to determine whether it is fully recoverable. An impairment loss is recorded in administrative expenses to write down the carrying value to recoverable amount.

INSURANCE PREMIUMS

Insurance contracts are those contracts where we have accepted significant insurance risk by agreeing to compensate the policyholders if they are adversely affected by a specified uncertain future event.

Premiums on insurance policies are deferred and recognized in income over the term of the policy on a straight-line basis.

PREMIUM AND CLAIMS LIABILITIES

Premium and claims liabilities represent our estimate of future claims under the terms and conditions of our insurance policies. An actuarial valuation, which conforms to the recommendations of the Canadian Institute of Actuaries, is performed to establish our liability. The valuation uses simulation techniques and assumptions derived from our own experience (frequency of claims, severity of losses, future claim development, administrative expenses, relevant discount rates and margins for adverse deviations) relevant to our insurance products. The liability is comprised of reported claims, incurred but not reported claims (IBNR), and management's best estimate of the net present value of net future claims under existing policies.

Deferred insurance premiums are the portion of premiums received on policies written that relate to risk periods after the current fiscal year and are amortized over the remaining term of the related policies. To the extent that our deferred premiums are not sufficient to cover our liability, an allowance is established. Adjustments to the liability are reflected in claims-related expenses. Future developments may result in claims which are materially different than the allowance provided.

Premium and claims liabilities on our Consolidated Statement of Financial Position include both the deferred premiums and the allowance for claims on insurance.

Other claims related expenses are charged to profit or loss as they are incurred. These costs arise from events that have occurred up to the balance sheet date.

REINSURANCE

In the ordinary course of business, we assume and cede reinsurance with other insurance companies. We cede reinsurance to mitigate our risk. The ceding arrangements provide greater diversification of the business and minimize the net loss potential arising from large risks. Ceded reinsurance contracts do not relieve us of our obligations to the insured but they do provide for the recovery of claims arising from the liabilities ceded. We also assume reinsurance and thereby take on risk. Ceded reinsurance premiums, unearned premiums ceded to reinsurers and recoveries and estimates of recoveries on claims are recorded in the same manner as if the reinsurance were considered direct business. Amounts recoverable from the reinsurers are estimated in a manner consistent with the claims liability associated with the reinsured policy and are recorded within reinsurers' share of premium and claims liabilities. Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that we may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that we will receive from the reinsurer.

DERIVATIVE INSTRUMENTS

Derivative instruments (derivatives) are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, equities, credit spreads or other financial measures. Derivatives that we may use to manage interest rate risk, foreign exchange risk and credit risk include interest rate swaps, cross currency interest rate swaps, foreign exchange swaps, foreign exchange forwards and credit default swaps. We hold a portfolio of derivatives which we use to manage the foreign exchange risk associated with using our capital to fund our largely U.S. dollar-denominated operations. Derivatives are only contracted with creditworthy counterparties in accordance with policies established by our Global Risk Management Group and approved by our Board of Directors.

We do not apply hedge accounting to our derivatives. Derivatives are accounted for at fair value and are recognized on the Consolidated Statement of Financial Position upon the trade date and are removed from the Consolidated Statement of Financial Position when they expire or are terminated. Derivatives with a positive fair value are reported as derivative instruments within assets, while derivatives with a negative fair value are reported as derivative instruments within liabilities. All interest income and expenses associated with our derivatives are included in interest expense or marketable securities revenue, while realized and unrealized gains and losses are recorded in other (income) expenses.

Long-term currency swaps are considered part of the financing cash flows on the Consolidated Statement of Cash Flows because these swaps are used to manage our funding. We issue debt in a number of currencies for diversification purposes. We then use currency swaps to bring those funds into the currency required to disburse on our loans. All other swaps are included in operating cash flows as they are used to alter the interest rate risk profile of the portfolio.

LOANS PAYABLE

We have designated the majority of our debt, including structured debt, at fair value through profit or loss in order to obtain the same accounting treatment as the related derivatives. In general, these derivatives are transacted to manage interest and foreign exchange rate risk on the related debt. Contractual interest on our debt is recorded in interest expense. Any change in fair value on these instruments is recorded in other (income) expenses.

Our fixed rate bonds which do not have derivatives associated with them are carried at amortized cost with interest recorded in interest expense using the effective interest rate method.

The transaction costs related to our loans payable at amortized cost are capitalized and amortized in interest expense using the effective interest rate method over the life of the instrument.

ACCOUNTS PAYABLE AND OTHER CREDITS

Accounts payable and other credits are carried at amortized cost.

TRANSLATION OF FOREIGN CURRENCY

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars, our functional and presentation currency, at exchange rates prevailing at the end of the year. 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 included in other (income) expenses.

Foreign currency non-monetary items that are measured at historical cost are translated at historical rates. Foreign currency non-monetary items measured at fair value are translated using the rate of exchange at the date the fair value was determined.

RETIREMENT BENEFIT PLANS

We maintain two pension plans with defined benefit and defined contribution components, and other post-retirement benefit plans including a retiring allowance plan and life insurance, health and dental care benefits. Defined benefit pensions are only available for employees hired prior to January 1, 2012.

Accrued benefit obligations are actuarially determined using the projected unit credit method, which incorporates management's best estimate of future salary levels, retirement ages of employees and other actuarial factors.

The defined benefit expense is included in administrative expenses and consists of the actuarially determined retirement benefits for the current year's service and imputed interest on projected benefit obligations net of interest earned on any plan assets over the average remaining working lives of employees expected to receive benefits under the plans.

Remeasurement gains and losses arise from the difference between the actual rate of return and the discount rate on plan assets for that period and from changes in actuarial assumptions used to determine the accrued benefit obligation. These gains or losses are recognized in other comprehensive income and are transferred to retained earnings.

The defined contribution expense consists of contributions paid in the period for service rendered and an accrual of unpaid but earned contributions and is included in administrative expenses on the Consolidated Statement of Comprehensive Income.

4. Marketable Securities

We maintain liquidity sufficient to meet general operating requirements, to maintain stability in our short-term borrowing program and to provide flexibility in achieving corporate objectives. Consistent with our business model for managing these instruments, they are carried at fair value through profit or loss.

The following table provides a breakdown of our marketable securities issued or guaranteed by:

(in millions of Canadian dollars)	**Dec. 31, 2021**	Dec. 31, 2020
U.S. government	**6,748**	6,752
Financial institutions	**1,508**	2,092
Other governments	**826**	1,419
Canadian governments	**–**	300
Total marketable securities	**$ 9,082**	$ 10,563

The following table provides a breakdown of our marketable securities by remaining term to maturity:

(in millions of Canadian dollars)				**Dec. 31, 2021**				Dec. 31, 2020
	Remaining term to maturity				Remaining term to maturity			
	Under 1 year	**1 to 3 years**	**Over 3 years**	**Total**	Under 1 year	1 to 3 years	Over 3 years	Total
Short-term instruments*	**4,170**	**–**	**–**	**4,170**	5,641	–	–	5,641
Long-term fixed rate securities	**111**	**2,166**	**2,635**	**4,912**	254	2,011	2,657	4,922
Total marketable securities	**$ 4,281**	**$ 2,166**	**$ 2,635**	**$ 9,082**	$ 5,895	$ 2,011	$ 2,657	$ 10,563

** Includes securities considered cash equivalents for the Consolidated Statement of Cash Flows of $1,486 million (2020 – $2,694 million).*

5. Loans and Allowance for Credit Losses

LOANS RECEIVABLE

The following table presents the various components of loans receivable and the contractual maturity and related contractual effective yields for gross loans receivable. The yields are computed on a weighted average basis by amount and term. Floating rate yields are expressed as spreads over base rates which consist mainly of LIBOR for U.S. dollars and the Canadian Dollar Offered Rate (CDOR) for Canadian dollars.

(in millions of Canadian dollars)					**Dec. 31, 2021**					Dec. 31, 2020
	Floating $	**Spread to maturity %**	**Fixed $**	**Yield to maturity %**	**Total $**	Floating $	Spread to maturity %	Fixed $	Yield to maturity %	Total $
Performing:										
Past due	**43**	**2.68**	**91**	**4.44**	**134**[(1)]	45	0.98	79	3.93	124[(1)]
2021	**–**	**–**	**–**	**–**	**–**	6,489	2.46	2,266	3.58	8,755
2022	**4,926**	**2.20**	**1,165**	**4.28**	**6,091**	7,224	2.31	1,995	4.15	9,219
2023	**6,533**	**2.26**	**1,343**	**3.78**	**7,876**	6,851	2.04	1,272	3.60	8,123
2024	**5,453**	**2.30**	**1,125**	**3.47**	**6,578**	5,144	2.33	1,085	3.51	6,229
2025	**4,062**	**2.21**	**1,336**	**3.44**	**5,398**	3,623	2.17	1,417	3.39	5,040
2026	**3,956**	**2.27**	**759**	**3.46**	**4,715**	2,143	2.49	644	3.33	2,787
2027 – 2031	**8,184**	**2.07**	**3,856**	**3.35**	**12,040**	6,270	1.98	3,558	2.63	9,828
2032 and beyond	**1,287**	**1.65**	**2,283**	**2.60**	**3,570**	777	1.64	1,926	3.17	2,703
Performing gross loans receivable	**34,444**	**2.10**	**11,958**	**3.07**	**46,402**	38,566	2.12	14,242	3.17	52,808
Impaired	**888**	**3.99**	**1,147**	**5.31**	**2,035**[(2)]	1,254	4.19	710	5.86	1,964
Gross loans receivable	**$ 35,332**		**$ 13,105**		**$ 48,437**	$ 39,820		$ 14,952		$ 54,772
Accrued interest and fees receivable					**156**					188
Deferred loan revenue and other					**(248)**					(238)
Loans receivable					**$ 48,345**					$ 54,722

[(1)] $63 million of receivables (2020 – $50 million) were less than one month past due.

[(2)] Includes two originated credit-impaired loans of $230 million.

At the end of 2021, the floating rate performing gross loans receivable yield was 2.46% (2020 – 2.51%) with an average term to reset of 98 days (2020 – 102 days).

In 2020, we provided relief to various obligors, particularly those in the aerospace industry, in order to support Canadian exporters through the current period of economic uncertainty. Any amounts that were deferred are included above in the appropriate category based on the deferral agreement.

Sovereign loans represented 2.3% of total performing gross loans receivable (2020 – 2.0%).

During the year, $1.5 billion of loans receivable represented loans that used a risk-free rate. For any loans that were transitioned from the LIBOR benchmark to a new interest rate benchmark, we exercised the practical expedient that allows the change in contractual cash flows to be accounted for as an update to the effective interest rate as the modifications were made on an economically equivalent basis and were a direct consequence of interest rate benchmark reform. At December 31, 2021, we had $1.6 billion of GBP LIBOR loans receivable agreements that were amended to a new interest rate benchmark but have yet to be converted and will convert during 2022 at their next renewal date. Refer to Note 3 for USD LIBOR loans yet to be amended.

We had country risk concentrations as outlined below:

(in millions of Canadian dollars)	**Dec. 31, 2021**			Dec. 31, 2020	
Country	**Performing gross loans receivable**	**%**	Country	Performing gross loans receivable	%
Canada	**6,299**	**13**	United States	8,419	16
United States	**6,228**	**13**	Canada	6,826	13
United Kingdom	**5,943**	**13**	United Kingdom	4,672	9
Chile	**4,305**	**9**	Chile	4,084	8
Australia	**3,189**	**7**	Mexico	3,714	7
Germany	**2,022**	**4**	Australia	3,209	6
Mexico	**2,009**	**4**	Germany	2,478	5
India	**1,715**	**4**	India	2,208	4
Spain	**1,631**	**4**	Saudi Arabia	1,539	3
China	**1,178**	**3**	United Arab Emirates	1,260	2
Other	**11,883**	**26**	Other	14,399	27
Total	**$ 46,402**	**100**	Total	$ 52,808	100

Our most significant single counterparty performing gross loans receivable at the end of 2021 were as follows:

- five transportation and storage industry obligors totalling $4,579 million (2020 – three obligors totalling $3,134 million), two located in Canada, one in the United States, one in the United Kingdom and one in Malta;
- four resources industry obligors totalling $3,697 million (2020 – four obligors totalling $3,779 million), three located in Chile and one located in Mongolia; and
- one finance and insurance industry obligor located in Chile for $759 million (2020 – none).

The following reflects the movement in gross loans receivable during the year:

(in millions of Canadian dollars)	**2021**	2020
Balance beginning of year	**54,772**	51,601
Disbursements	**16,196**	25,345
Principal repayments	**(19,832)**	(21,490)
New origination due to modification	**230**	–
Capitalized interest	**69**	44
Loans written off	**(93)**	(94)
Derecognition due to modification	**(571)**	–
Principal recoveries from loan asset sales	**(1,150)**	(475)
Foreign exchange translation	**(1,184)**	(159)
Balance end of year	**$ 48,437**	$ 54,772

In 2021, we sold $1,163 million (2020 – $303 million) in performing loans to various counterparties for which we recovered $1,126 million (2020 – $295 million) and the remaining $37 million (2020 – $8 million) was written off. We also sold $43 million (2020 – $212 million) in impaired loans for which the recoveries were $24 million (2020 – $180 million).

During the year, due to modifications of the contractual terms of loans, we derecognized $571 million of impaired gross loans receivable as well as the specific allowance of $344 million. At the time of the originations, the new loans were considered credit-impaired and we recognized the new loans at their credit impaired carrying values of $230 million.

INDIVIDUALLY IMPAIRED LOANS RECEIVABLE

The following table shows the carrying amount of loans specifically identified as impaired:

(in millions of Canadian dollars)	**Dec. 31, 2021**	Dec. 31, 2020
Gross loans receivable		
Commercial	**2,026**	1,955
Sovereign	**9**	9
	2,035	1,964
Less: Deferred loan revenue and other	**14**	–
Individual allowance	**885**	1,254
Carrying amount of individually impaired loans	**$ 1,136**	$ 710

The following reflects the movement in individually impaired gross loans receivable during the year:

(in millions of Canadian dollars)	**2021**	2020
Balance beginning of year	**1,964**	1,390
Loans classified as impaired	**619**	1,038
New origination due to modification	**230**	–
Disbursements on loans	**114**	111
Capitalized interest	**27**	6
Derecognition due to modification	**(571)**	–
Principal repayments	**(216)**	(262)
Loans written off	**(55)**	(86)
Loans reinstated to performing*	**(31)**	(2)
Principal recoveries from loan sales	**(24)**	(180)
Foreign exchange translation	**(22)**	(51)
Balance end of year	**$ 2,035**	$ 1,964

** Includes loans that were made performing following the restructuring of credit agreements.*

In 2021, we had $619 million of loans made impaired (2020 – $1,038 million) from 14 commercial borrowers (2020 – 29 commercial borrowers).

During the year, impaired loans to 38 commercial borrowers totalling $55 million of principal (2020 – 27 commercial borrowers totalling $86 million) were written off. These loans were written off after all collection methods had been exhausted and no further prospect of recovery was likely.

In 2021, we had $31 million of loans return to performing status which related to one obligor (2020 – $2 million of loans related to one obligor).

Interest income recognized on impaired loans was $50 million in 2021 (2020 – $45 million).

EXPOSURE BY CREDIT GRADE

The breakdown of our gross loans receivable, loan commitments and loan guarantees by credit grade was as follows:

(in millions of Canadian dollars)				Dec. 31, 2021		Dec. 31, 2020	
	Non-credit-impaired		Credit-impaired				
	Stage 1	Stage 2	Stage 3	$	% of total	$	% of total
Gross loans receivable							
Investment grade*	17,111	2,654	–	19,765	41%	19,207	35%
Non-investment grade	13,272	13,365	–	26,637	55%	33,601	61%
Individually impaired	–	–	1,805	1,805	4%	1,964	4%
Originated credit-impaired	–	–	230	230	–	–	–
Total gross loans receivable	$ 30,383	$ 16,019	$ 2,035	$ 48,437	100%	$ 54,772	100%
Loan commitments							
Investment grade*	4,191	14	–	4,205	40%	5,600	36%
Non-investment grade	3,966	2,340	–	6,306	60%	10,045	64%
Individually impaired	–	–	15	15	–	61	–
Total loan commitments	$ 8,157	$ 2,354	$ 15	$ 10,526	100%	$ 15,706	100%
Loan guarantees							
Investment grade*	247	60	–	307	7%	451	11%
Non-investment grade	3,258	718	–	3,976	90%	3,610	86%
Individually impaired	–	–	116	116	3%	112	3%
Total loan guarantees	$ 3,505	$ 778	$ 116	$ 4,399	100%	$ 4,173	100%

** Investment grade exposure represents obligors with credit ratings of BBB- and above as determined based on our internal credit risk-rating methodology.*

We employ a range of policies to mitigate credit risk on our commercial loans which includes obtaining certain forms of security interest. The principal types of security interest are mortgages on equipment (mainly aircraft and rolling stock) and real estate, assignments or pledges on various business assets such as trade receivables, inventory, property, plant and equipment, equity shares and bank accounts. Other principal forms of credit enhancement include guarantees from counterparties with higher credit ratings that may be related to the borrower, such as a parent company.

As at the end of 2021, 19% of our loan exposure was collateralized mainly by aircraft and rolling stock (2020 – 17%). For our aerospace portfolio, we obtain third party assessments of each aircraft's value, when available. The estimated value of our aircraft collateral at the end of 2021 was $8,807 million (2020 – $6,070 million). For the remainder of our secured portfolio, we rely on the latest available financial statements of the obligor and/or guarantor to estimate the collateral. The value of collateral on our impaired portfolio is $663 million (2020 – $212 million).

Our concentrations of risk are managed by obligor, country and industry. The maximum gross loans receivable exposure to any one obligor at the end of 2021 was $1,284 million (2020 – $1,306 million). After consideration of unfunded loan participations and loan default insurance, the maximum net exposure to any one obligor was $1,284 million (2020 – $1,306 million).

ALLOWANCE FOR CREDIT LOSSES

The following table shows the gross and net carrying amount of our loans receivable, loan commitments and loan guarantees:

(in millions of Canadian dollars)		Dec. 31, 2021			Dec. 31, 2020	
	Gross carrying amount	Allowance for losses	Net carrying amount	Gross carrying amount	Allowance for losses	Net carrying amount
Loans receivable	48,437	1,760	46,677	54,772	2,630	52,142
Loan commitments	10,526	20	10,506	15,706	50	15,656
Loan guarantees	4,399	130	4,269	4,173	220	3,953
Total	$ 63,362	$ 1,910	$ 61,452	$ 74,651	$ 2,900	$ 71,751

Our allowance for credit losses is estimated using complex models that incorporate inputs, assumptions and model techniques that involve a high degree of management judgment. During the COVID-19 pandemic, a heightened level of judgment was required in a number of areas. In determining credit risk and estimating expected credit losses, we applied judgment with respect to the degree that certain industries and portfolios would be impacted by the COVID-19 pandemic. Given the economic uncertainty resulting from the pandemic, our estimate of allowance for credit losses in future periods could change materially.

During 2021, we made changes to our models as described below.

A component of our ECL calculation includes the use of internal risk ratings which are produced through various approved risk rating models that use both quantitative and qualitative measures to determine an obligor's risk rating. Our risk-rating methodology allows for model-produced risk ratings to be adjusted if necessary when management believes the model-produced ratings do not capture all relevant information needed to assess an obligor's risk. At December 31, 2020, the difference between model-produced risk ratings and adjusted risk ratings was a $386 million increase in our allowance for credit losses, which included adjustments to reflect the increased risk of the COVID-19 pandemic. The adjustments to the model-produced risk ratings due to the COVID-19 pandemic were industry specific and based upon input from internal subject matter experts as well as data from external sources such as external credit agencies. The adjustments to the model-produced risk ratings due to the COVID-19 pandemic were removed in 2021 as our approved internal risk-ratings models captured all relevant information needed to assess an obligor's risk. The impact of the removal of the COVID-19 adjustments is included in remeasurements, as defined below.

In 2020, a new loss given default (LGD) model was developed for our aerospace portfolio to reflect increased risk stemming from the COVID-19 pandemic. The new model was based on distressed aircraft values relative to loan values, which was more representative of the economic environment at that time. The implementation of the new model represented a change in accounting estimate. In 2021, the improved economic environment allowed us to revert to our previous LGD model which resulted in a $107 million decrease to our allowance for losses and represents a change in accounting estimate.

The following tables reconcile the opening and closing allowance for credit losses for the year ended December 31, 2021. Reconciling items include the allowance impact due to the following:

- The impact of transfers between stages before any corresponding remeasurement of allowance;
- Remeasurement of allowance as a result of transfers between stages and the impact of any credit risk rating changes, implementation of new models, and changes in model inputs, collateral values and assumptions that did not result in a transfer between stages;
- New originations during the period, which include newly disbursed loans, signed loan commitments, and signed loan guarantees and also include loan assets that were originated due to recognition following a modification. New loan originations in Stage 3 include new loans which result from cash outflows on impaired guarantees or loan commitments. We do not consider these assets to be originated credit impaired assets;
- Net disbursements or repayments and maturities, which include loan disbursements and repayments on existing loans receivable, loan commitments and loan guarantees;
- Write-off of assets deemed uncollectible;
- Loan assets that were derecognized due to a modification; and
- Effect of changes in foreign exchange rates.

Changes to the allowance for losses on loans receivable, loan commitments and loan guarantees for the year ended December 31, 2021 were as follows:

(in millions of Canadian dollars)	Stage 1	Stage 2	Stage 3	2021 Total
Allowance for losses on loans receivable				
Balance beginning of year	132	1,244	1,254	**2,630**
Provision for (reversal of) credit losses				
Transfer to stage 1	115	(115)	–	**–**
Transfer to stage 2	(44)	47	(3)	**–**
Transfer to stage 3	–	(40)	40	**–**
Remeasurements*	(149)	(99)	74	**(174)**
New originations	30	117	48	**195**
Net repayments and maturities	(25)	(297)	(134)	**(456)**
Total provision for (reversal of) credit losses	(73)	(387)	25	**(435)**
Write-offs	(1)	(1)	(42)	**(44)**
Modification resulting in derecognition	–	–	(344)	**(344)**
Foreign exchange translation	(4)	(35)	(8)	**(47)**
Balance end of year	54	821	885	**1,760**
Allowance for losses on loan commitments				
Balance beginning of year	–	32	18	**50**
Provision for (reversal of) credit losses				
Transfer to stage 1	4	(4)	–	**–**
Transfer to stage 2	(1)	1	–	**–**
Remeasurements*	(6)	(18)	(3)	**(27)**
New originations	6	2	–	**8**
Net repayments and maturities	(1)	(1)	(9)	**(11)**
Total provision for (reversal of) credit losses	2	(20)	(12)	**(30)**
Balance end of year	2	12	6	**20**
Allowance for losses on loan guarantees				
Balance beginning of year	59	82	79	**220**
Provision for (reversal of) credit losses				
Transfer to stage 1	58	(58)	–	**–**
Transfer to stage 2	(47)	47	–	**–**
Transfer to stage 3	–	(2)	2	**–**
Remeasurements*	(137)	(45)	31	**(151)**
New originations	89	–	–	**89**
Net repayments and maturities	8	(4)	(31)	**(27)**
Total provision for (reversal of) credit losses	(29)	(62)	2	**(89)**
Foreign exchange translation	–	(1)	–	**(1)**
Balance end of year	30	19	81	**130**
Total allowance for losses on loans receivable, loan commitments and loan guarantees	$ 86	$ 852	$ 972	**$ 1,910**

** Remeasurements includes the impact of the implementation of new and updates to LGD models, as well as the impact of the removal of the 2020 COVID-19 adjustments to model produced risk ratings.*

Changes to the allowance for losses on loans receivable, loan commitments and loan guarantees for the year ended December 31, 2020 were as follows:

(in millions of Canadian dollars)	Stage 1	Stage 2	Stage 3	2020 Total
Allowance for losses on loans receivable				
Balance beginning of year	156	294	480	930
Provision for (reversal of) credit losses				
Transfer to stage 1	360	(360)	–	–
Transfer to stage 2	(287)	287	–	–
Transfer to stage 3	–	(150)	150	–
Remeasurements*	(229)	1,201	888	1,860
New originations	162	227	18	407
Net repayments and maturities	(28)	(200)	(142)	(370)
Total provision for (reversal of) credit losses	(22)	1,005	914	1,897
Write-offs	–	(1)	(72)	(73)
Foreign exchange translation	(2)	(54)	(68)	(124)
Balance end of year	132	1,244	1,254	2,630
Allowance for losses on loan commitments				
Balance beginning of year	9	–	1	10
Provision for (reversal of) credit losses				
Transfer to stage 1	16	(16)	–	–
Transfer to stage 2	(16)	16	–	–
Remeasurements*	(19)	38	65	84
New originations	13	18	–	31
Net repayments and maturities	(3)	(22)	(48)	(73)
Total provision for (reversal of) credit losses	(9)	34	17	42
Foreign exchange translation	–	(2)	–	(2)
Balance end of year	–	32	18	50
Allowance for losses on loan guarantees				
Balance beginning of year	19	7	54	80
Provision for (reversal of) credit losses				
Transfer to stage 1	68	(68)	–	–
Transfer to stage 2	(107)	107	–	–
Transfer to stage 3	–	(1)	1	–
Remeasurements*	(67)	68	52	53
New originations	168	4	2	174
Net repayments and maturities	(23)	(28)	(32)	(83)
Total provision for credit losses	39	82	23	144
Foreign exchange translation	1	(7)	2	(4)
Balance end of year	59	82	79	220
Total allowance for losses on loans receivable, loan commitments and loan guarantees	$ 191	$ 1,358	$ 1,351	$ 2,900

** Remeasurements includes the impact of the implementation of new and updates to LGD models.*

6. Investments

(in millions of Canadian dollars)	**Dec. 31, 2021**		Dec. 31, 2020	
	Cost	**Fair value**	Cost	Fair value
Direct investments				
Equity interests	**577**	**751**	307	459
Loans and debt securities	**134**	**140**	82	92
	711	**891**	389	551
Fund investments	**1,078**	**1,816**	1,107	1,481
Total	**$ 1,789**	**$ 2,707**	$ 1,496	$ 2,032

7. Other Assets

(in millions of Canadian dollars)	**Dec. 31, 2021**	Dec. 31, 2020
Insurance premiums receivable	**37**	54
Guarantee fees receivable	**29**	44
Recoverable insurance claims	**27**	28
Prepaid expenses	**15**	18
Assets held for sale	**1**	9
Other	**96**	107
Total	**$ 205**	$ 260

8. Property, Plant and Equipment

During the year, changes to property, plant and equipment were as follows:

(in millions of Canadian dollars)				**2021**				2020
	Computer hardware	**Furniture and equipment**	**Leasehold improve-ments**	**Total**	Computer hardware	Furniture and equipment	Leasehold improve-ments	Total
Cost:								
Balance beginning of year	**27**	**21**	**59**	**107**	33	22	57	112
Additions	**6**	**–**	**1**	**7**	2	–	4	6
Disposals	**–**	**–**	**–**	**–**	(8)	(1)	(2)	(11)
Balance end of year	**33**	**21**	**60**	**114**	27	21	59	107
Accumulated depreciation:								
Balance beginning of year	**(26)**	**(20)**	**(21)**	**(67)**	(30)	(21)	(18)	(69)
Depreciation expense	**–**	**–**	**(3)**	**(3)**	(2)	–	(4)	(6)
Disposals	**–**	**–**	**–**	**–**	6	1	1	8
Balance end of year	**(26)**	**(20)**	**(24)**	**(70)**	(26)	(20)	(21)	(67)
Carrying amount	**$ 7**	**$ 1**	**$ 36**	**$ 44**	$ 1	$ 1	$ 38	$ 40

9. Intangible Assets

During the year, changes to intangible assets were as follows:

(in millions of Canadian dollars)			**2021**			2020
	Internally developed software	**Acquired computer software**	**Total**	Internally developed software	Acquired computer software	Total
Cost:						
Balance beginning of year	**177**	**131**	**308**	177	134	311
Additions	**–**	**1**	**1**	–	2	2
Disposals	**–**	**(3)**	**(3)**	–	(5)	(5)
Balance end of year	**177**	**129**	**306**	177	131	308
Accumulated amortization:						
Balance beginning of year	**(123)**	**(101)**	**(224)**	(114)	(89)	(203)
Amortization expense	**(8)**	**(12)**	**(20)**	(9)	(16)	(25)
Disposals	**–**	**1**	**1**	–	4	4
Balance end of year	**(131)**	**(112)**	**(243)**	(123)	(101)	(224)
Carrying amount	**$ 46**	**$ 17**	**$ 63**	$ 54	$ 30	$ 84

10. Right-of-Use Assets and Lease Liabilities

RIGHT-OF-USE ASSETS

We have leases for our head office building, other office space and computer hardware. We have included extension options in the measurement of our lease liabilities when it is reasonably certain we will exercise the extension option. During the year, changes to our right-of-use assets were as follows:

(in millions of Canadian dollars)				**2021**				2020
	Head office building	**Office space**	**Computer hardware**	**Total**	Head office building	Office space	Computer hardware	Total
Balance beginning of year	**112**	**10**	**1**	**123**	119	12	1	132
Additions	**–**	**14**	**–**	**14**	–	1	–	1
Depreciation	**(7)**	**(3)**	**–**	**(10)**	(7)	(3)	–	(10)
Balance end of year	**$ 105**	**$ 21**	**$ 1**	**$ 127**	$ 112	$ 10	$ 1	$ 123

LEASE LIABILITIES

The following table presents the maturity analysis of the contractual undiscounted cash flows for lease liabilities as at December 31, 2021:

(in millions of Canadian dollars)	**2021**	2020
Under 1 year	**14**	13
1 to 5 years	**69**	64
Over 5 years	**131**	136
Total undiscounted lease liabilities	**214**	213
Total lease liabilities end of year	**$ 158**	$ 153

Future contractual commitments related to non-lease components, low value and short-term leases at the end of 2021 were $225 million (2020 – $243 million).

11. Accounts Payable and Other Credits

(in millions of Canadian dollars)	**Dec. 31, 2021**	Dec. 31, 2020
Employee benefit accruals	**64**	65
Trade payables and accruals	**48**	34
Canada Account payable	**32**	24
Deferred revenue	**13**	1
Reinsurance premiums payable	**5**	6
Other payables and other credits	**23**	49
Total	**$ 185**	$ 179

Canada Account payable primarily represents the amount of cash repayments (principal and interest) received by EDC from borrowers on Canada Account loans which were not yet remitted at year-end to the Consolidated Revenue Fund. In 2020, we began administering Canada Account loans related to CEBA as part of Canada's response to the COVID-19 pandemic. The costs incurred related to the program are recoverable from Canada Account.

Deferred revenue represents the unrecognized portion of donor contributions received by EDC's subsidiary FinDev Canada to cover the administration costs of a program on behalf of a related party. Refer to Note 32 for further details about the deferred revenue.

12. Debt Instruments

We issue debt instruments in global capital markets. Short-term payables consist of commercial paper and other short-term debt related instruments that we issue with maturities under one year. Long-term payables represent bonds and other long-term instruments which we issue in U.S. dollars and other currencies with maturities exceeding one year. We use derivative instruments to manage interest rate risk and foreign exchange risk, and also for asset liability management purposes. Refer to Note 13 for further details on our derivative instruments.

EDC is wholly owned by the Government of Canada and our obligations are backed by the full faith and credit of the Government of Canada which holds a AAA credit rating. Therefore, there is no significant change in the value of our debt instruments that can be attributed to changes in our own credit risk.

LOANS PAYABLE

The components of loans payable (excluding derivatives) were as follows:

(in millions of Canadian dollars)		**Dec. 31, 2021**			Dec. 31, 2020	
	Designated at fair value through profit or loss	**At amortized cost**	**Total**	Designated at fair value through profit or loss	At amortized cost	Total
Short-term payables	**6,265**	**–**	**6,265**	2,781	–	2,781
Long-term payables						
due within current year*	**9,231**	**4,167**	**13,398**	8,296	2,266	10,562
over one year	**23,736**	**126**	**23,862**	27,760	3,917	31,677
Total long-term payables	**32,967**	**4,293**	**37,260**	36,056	6,183	42,239
Total	**$ 39,232**	**$ 4,293**	**$ 43,525**	$ 38,837	$ 6,183	$ 45,020

** Includes accrued interest of $22 million (2020 – $20 million).*

The amount to be paid at maturity on the debt designated at fair value through profit or loss was $38,804 million (2020 – $37,905 million), $428 million less than the December 2021 fair value (2020 – $932 million).

In 2021, there were foreign exchange translation gains of $76 million (2020 – $70 million) on our loans payable designated at amortized cost. The foreign exchange exposure of these loans payable is managed as part of our foreign currency risk management together with all other assets and liabilities. Refer to Note 29 for our consolidated foreign exchange translation (gain) loss.

The following table notes the changes in loans payable arising from financing activities:

(in millions of Canadian dollars)			**2021**			2020
	Short-term loans payable	**Long-term loans payable**	**Total**	Short-term loans payable	Long-term loans payable	Total
Balance beginning of year	**2,781**	**42,239**	**45,020**	9,117	43,287	52,404
Net cash flows	**3,497**	**(3,602)**	**(105)**	(6,537)	(1,684)	(8,221)
Non-cash changes						
Foreign exchange translation	**(12)**	**(906)**	**(918)**	223	253	476
Fair value changes	**–**	**(509)**	**(509)**	1	396	397
Change in accrued interest	**(1)**	**38**	**37**	(23)	(13)	(36)
Balance end of year	**$ 6,265**	**$ 37,260**	**$ 43,525**	$ 2,781	$ 42,239	$ 45,020

STRUCTURED NOTES

We hold structured notes as part of our funding program. Structured notes are hybrid securities that combine debt instruments with derivative components. Internal guidelines limit the authorized instruments that may be used in our funding. Currently authorized and held structured notes are limited to callable/extendible notes with a carrying value of $1,710 million (2020 – $943 million).

We have executed swap contracts to mitigate interest rate risk and foreign exchange risk on these structured borrowings. These contracts ensure that we will receive proceeds from the swap to meet the requirements of settling and servicing the debt obligation. In swapping out of the underlying bond issue, the potential interest rate risk has been converted to credit risk. Credit exposure on derivative instruments is further discussed in Note 13.

13. Derivative Instruments

We use a variety of derivative instruments to manage costs, returns and levels of financial risk associated with our funding, investment and risk management activities.

We currently use, but are not limited to, the following types of instruments:

Interest rate swaps – transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged.

Cross currency interest rate swaps – transactions in which two parties exchange currencies at inception and at maturity, as well as interest flows on the exchanged amounts on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest.

Foreign exchange swaps – commitments to exchange cash flows in different currencies where there are two exchanges; the first is made at the spot rate at inception and the second at a predetermined rate on a specified date in the future.

Foreign exchange forwards – commitments to exchange cash flows in different currencies, for which the foreign exchange rate is predetermined, at a specified date in the future.

In any transaction there is a potential for loss. This loss potential is represented by (1) credit risk, wherein a counterparty fails to perform an obligation as agreed upon, causing the other party to incur a financial loss, and (2) interest rate risk and foreign exchange risk, where an exposure exists as a result of changes in interest rates or foreign exchange rates.

We manage our exposure to interest rate risk and foreign exchange risk using limits developed in consultation with the Department of Finance and approved by our Board of Directors. Both our internal policies and guidelines (established in our Global Risk Management Group and approved by our Board of Directors) and those set by the Minister of Finance limit our use of derivatives. We do not use derivative instruments for speculative purposes.

We manage our exposure to derivative counterparty credit risk by contracting only with creditworthy counterparties, establishing International Swaps and Derivatives Association (ISDA) master netting agreements, and in certain cases entering into collateral agreements, via Credit Support Annex with those counterparties. Internal policies and procedures establish credit approvals, controls and monitoring.

Under ISDA master netting agreements, the amounts owing by each counterparty on a single day may be netted into a single payment by currency. We do not use these agreements for daily netting, and accordingly, the ISDA agreements do not meet the criteria for offsetting in the Consolidated Statement of Financial Position. We retain the use of these agreements to allow the right to offset all outstanding derivative instruments upon specific credit events such as the default of one of the parties to the agreement. Upon such events, all transactions under the agreement are terminated, a net termination value is assessed which determines the final amount payable to settle all outstanding transactions.

Collateral agreements provide for the posting of collateral by the counterparty when our exposure to that entity exceeds a certain threshold. Collateral is held by a third party custodian and at the end of 2021 totalled $94 million (2020 – $292 million) and consists of AAA rated government issued securities.

All derivative counterparties must have a minimum credit rating of A- and any exception must be approved by the Board of Directors. In 2021, we did not hold any derivatives with counterparties that had a rating below this requirement (2020 – none).

In 2021, we reviewed our contracts for embedded derivatives in non-financial contracts and determined that there were no embedded derivatives (2020 – none).

Notional amounts are not recorded as assets or liabilities on our Consolidated Statement of Financial Position as they only represent the face amount of the contract to which a rate or a price is applied to determine the amount of cash flows to be exchanged.

The remaining term to maturity for the notional amounts of our derivative contracts was as follows:

(in millions of Canadian dollars)				**Dec. 31, 2021**				Dec. 31, 2020
	Remaining term to maturity				Remaining term to maturity			
	Under 1 year	**1 to 3 years**	**Over 3 years**	**Total**	Under 1 year	1 to 3 years	Over 3 years	Total
Interest rate swaps	**5,965**	**18,715**	**16,462**	**41,142**	5,923	13,943	18,358	38,224
Cross currency interest rate swaps	**5,833**	**7,654**	**7,274**	**20,761**	2,558	9,319	8,173	20,050
Foreign exchange swaps	**13,791**	**–**	**–**	**13,791**	15,283	–	–	15,283
Foreign exchange forwards	**–**	**–**	**–**	**–**	290	–	–	290
Total	**$ 25,589**	**$ 26,369**	**$ 23,736**	**$ 75,694**	$ 24,054	$ 23,262	$ 26,531	$ 73,847

The following table provides the fair values for each category of derivative financial instrument:

(in millions of Canadian dollars)		**Dec. 31, 2021**			Dec. 31, 2020	
	Positive	**Negative**	**Total**	Positive	Negative	Total
Cross currency interest rate swaps	**546**	**252**	**294**	1,051	175	876
Interest rate swaps	**427**	**656**	**(229)**	902	1,099	(197)
Foreign exchange swaps	**166**	**95**	**71**	172	348	(176)
Foreign exchange forwards	**–**	**–**	**–**	1	1	–
Total derivative instruments	**1,139**	**1,003**	**136**	2,126	1,623	503
Impact of netting agreements	**(821)**	**(821)**	**–**	(1,288)	(1,288)	–
Total*	**$ 318**	**$ 182**	**$ 136**	$ 838	$ 335	$ 503
Applicable collateral			**(94)**			(292)
Net amount			**$ 42**			$ 211

** Includes net derivative instruments assets arising from financing activities of $83 million (2020 – net assets of $443 million).*

The following table notes the changes in derivative instruments arising from financing activities:

(in millions of Canadian dollars)	**Dec. 31, 2021**	Dec. 31, 2020
Balance beginning of year	**443**	(219)
Net cash flows	**(80)**	112
Non-cash changes		
Foreign exchange translation and other	**(374)**	591
Fair value changes	**68**	(83)
Change in accrued interest	**26**	42
Balance end of year	**$ 83**	$ 443

14. Debt Instrument Maturities

We purchase derivatives to fulfill our required portfolio funding profile to provide flexibility in our debt issuances. For example, a fixed rate debt issue can be combined with an interest rate swap to generate floating rate funding instead of issuing a floating rate note. Issuing fixed rate debt as well as floating rate notes provides us with access to a more diversified investor base. The following table shows our resulting net fixed and floating rate debt positions, as well as the maturities and yields of those net positions. Although we measure our swaps and the majority of debt instruments at their fair value on the financial statements, they are shown below at their notional amounts in order to provide information on cash requirements at maturity of the instruments.

(in millions of Canadian dollars)				**Dec. 31, 2021**				Dec. 31, 2020
Year of maturity	**Debt issues**	**Swap contracts**	**Net**	**Yield* (%)**	Debt issues	Swap contracts	Net	Yield* (%)
Fixed rate issues								
2021	**–**	**–**	**–**	**–**	6,569	(3,993)	2,576	1.19
2022	**9,414**	**(6,155)**	**3,259**	**1.51**	7,605	(4,580)	3,025	1.56
2023	**10,096**	**(9,337)**	**759**	**2.18**	8,596	(7,959)	637	2.57
2024	**5,532**	**(5,532)**	**–**	**–**	3,162	(3,162)	–	–
2025	**1,791**	**(1,791)**	**–**	**–**	1,985	(1,985)	–	–
2026	**1,826**	**(1,826)**	**–**	**–**	1,556	(1,556)	–	–
2027 to 2031	**184**	**(184)**	**–**	**–**	322	(322)	–	–
Subtotal	**28,843**	**(24,825)**	**4,018**	**1.74**	29,795	(23,557)	6,238	1.66
Floating rate issues								
2021	**–**	**–**	**–**		6,711	3,948	10,659	
2022	**10,137**	**6,104**	**16,241**		3,845	4,469	8,314	
2023	**1,427**	**9,347**	**10,774**		1,454	7,848	9,302	
2024	**1,470**	**5,458**	**6,928**		1,045	3,076	4,121	
2025	**1,198**	**1,730**	**2,928**		1,218	1,832	3,050	
2026	**–**	**1,831**	**1,831**		–	1,451	1,451	
2027 to 2031	**–**	**175**	**175**		–	303	303	
Subtotal	**14,232**	**24,645**	**38,877**	**0.21**	14,273	22,927	37,200	0.27
Total	**$ 43,075**	**$ (180)**	**$ 42,895**		$ 44,068	$ (630)	$ 43,438	

** Refers to yield to maturity for fixed rate issues and yield to reset for floating rate issues.*

At the end of 2021, the contractual cash flows, including principal and estimated interest (using current contractual rates), related to our debt portfolio were as follows:

(in millions of Canadian dollars)					**Dec. 31, 2021**
	Under 1 year	**1 to 3 years**	**Over 3 to 5 years**	**Over 5 years**	**Total**
Debt	**20,035**	**18,845**	**4,836**	**185**	**43,901**
Swap contracts					
Receivable	**(6,559)**	**(15,155)**	**(3,636)**	**(185)**	**(25,535)**
Payable	**6,149**	**14,848**	**3,572**	**175**	**24,744**
Total	**$ 19,625**	**$ 18,538**	**$ 4,772**	**$ 175**	**$ 43,110**

Credit exposure and other details of derivative instruments are included as part of Note 13.

15. Premium and Claims Liabilities

The premium and claims liabilities are broken down as follows:

(in millions of Canadian dollars)			**Dec. 31, 2021**			Dec. 31, 2020
	Insurance	**Reinsurance**	**Net liabilities**	Insurance	Reinsurance	Net liabilities
Credit insurance	**300**	**(30)**	**270**	420	(30)	390
Financial institutions insurance	**–**	**–**	**–**	10	–	10
International trade guarantee	**210**	**(10)**	**200**	180	(10)	170
Political risk insurance	**160**	**(70)**	**90**	210	(110)	100
Total	**$ 670**	**$ (110)**	**$ 560**	$ 820	$ (150)	$ 670

The premium and claims liabilities were comprised of the following components:

(in millions of Canadian dollars)	**Dec. 31, 2021**	Dec. 31, 2020
Deferred insurance premiums	**140**	160
Allowance for claims on insurance	**530**	660
Total premium and claims liabilities	**670**	820
Reinsurers' share of allowance for claims on insurance	**(90)**	(120)
Prepaid reinsurance	**(20)**	(30)
Reinsurers' share of premium and claims liabilities	**(110)**	(150)
Net premium and claims liabilities	**$ 560**	$ 670

During the year, the premium and claims liabilities were impacted by the following factors:

(in millions of Canadian dollars)			**2021**			2020
	Insurance	**Reinsurance**	**Net liabilities**	Insurance	Reinsurance	Net liabilities
Balance beginning of year	**820**	**(150)**	**670**	500	(120)	380
Update to methodology for COVID-19	**(200)**	**30**	**(170)**	220	(20)	200
Change in portfolio composition and risk ratings	**100**	**(10)**	**90**	50	(10)	40
Update to actuarial assumptions	**(50)**	**20**	**(30)**	40	–	40
Change to the IBNR methodology	**–**	**–**	**–**	10	–	10
Balance end of year	**$ 670**	**$ (110)**	**$ 560**	$ 820	$ (150)	$ 670

The methodology to estimate the impact of the COVID-19 pandemic consists of estimating industry-specific risk ratings and reflecting these in the frequency of future claims and has required a heightened application of judgment by subject matter experts within EDC, especially regarding the degree to which industries, in 2020 and 2021, and countries, in 2020, have been impacted by the COVID-19 pandemic. As information has become available, the estimate has been revised accordingly. As a result, at December 31, 2021, our estimated net liability related to the impact of COVID-19 was reduced to $30 million (2020 – $200 million), as noted in the table above. The amount reflects a reduction of anticipated risk that was previously spread across our entire portfolio to now focus on a specific subset of policies within our credit insurance solution that were yet to have their risk ratings reviewed.

16. Financing Commitments

We have three types of financing commitments.

The first type is undisbursed amounts on signed loan agreements totalling $10,526 million (2020 – $15,706 million). These commitments are immediately available to the obligor for drawdown subject to continued adherence to contractual covenants established under the financing agreements.

Undisbursed amounts on signed loan agreements with their committed fixed rates or committed floating rate spreads are outlined in the following table. All yields are computed on a weighted average basis and the spreads over floating interest rates represent the spreads over base rates which consist mainly of U.S. dollar LIBOR.

(in millions of Canadian dollars)	**Dec. 31, 2021**					Dec. 31, 2020				
	Fixed $	**Estimated spot yield %**	**Floating $**	**Spread %**	**Total $**	Fixed $	Estimated spot yield %	Floating $	Spread %	Total $
Commercial	**86**	**5.01**	**10,410**	**1.85**	**10,496**	67	3.19	15,584	1.75	15,651
Sovereign	**–**	**–**	**30**	**2.00**	**30**	–	–	55	0.19	55
Total	**$ 86**	**5.01**	**$ 10,440**	**1.85**	**$ 10,526**	$ 67	3.19	$ 15,639	1.75	$ 15,706

We also have loan and loan guarantee commitments for which terms related to the transaction, such as interest rate type and disbursement schedule, have not yet been determined. This category of commitments includes letters of offer accepted and outstanding for loans of $1,931 million (2020 – $1,414 million) and loan guarantees of $135 million (2020 – $397 million) as well as unallocated confirmed lines of credit of $133 million (2020 – $159 million).

The third type of financing commitment relates to undisbursed investment commitments of $884 million (2020 – $770 million). The majority of these commitments are drawn down over a five-year period, although drawdowns may occur over the life of the fund at the discretion of the fund managers.

17. Contingent Liabilities

INSURANCE IN FORCE AND LOAN GUARANTEES

As described in Note 1, we are subject to a limit imposed by the Act on our contingent liabilities related to the total principal amount owing under all insurance policies, reinsurance policies, indemnities and guarantees of $90 billion. The following table presents the net amount of these contingent liabilities:

(in millions of Canadian dollars)	**Dec. 31, 2021**	Dec. 31, 2020
Insurance in force:		
Credit insurance	**14,213**	14,362
Financial institutions insurance	**2,366**	2,897
International trade guarantee	**11,738**	11,295
Political risk insurance	**479**	651
Reinsurance ceded*	**(217)**	(218)
Total insurance in force	**28,579**	28,987
Loan guarantees	**4,399**	4,173
Total	**$ 32,978**	$ 33,160

* *Represents treaty reinsurance agreements covering most bonding obligors and the short-term export credit insurance portfolio, including most foreign bank exposures.*

Insurance in Force

Exposure on our insurance in force at the end of 2021 totalled $28,579 million (2020 – $28,987 million). Net premium and claims liabilities related to this exposure on the Consolidated Statement of Financial Position was $560 million (2020 – $670 million); refer to Note 15 for further details. For details regarding insurance products and risks refer to Note 18.

Loan Guarantees

We issue loan guarantees to cover non-payment of principal, interest and fees owing to financial institutions providing loans to Canadian exporters or buyers of Canadian goods and services. Calls on guarantees result in our recognition of a loan asset within our financial statements and become a direct obligation of the exporter or buyer. At the end of 2021, loan guarantees with performing obligors were $4,283 million of which $67 million were secured (2020 – $4,061 million in performing guarantees of which $57 million were secured). Loan guarantees with impaired obligors were $116 million for 2021 of which none were secured (2020 – $112 million of which none were secured).

Loan guarantees on the Consolidated Statement of Financial Position were comprised as follows:

(in millions of Canadian dollars)	**Dec. 31, 2021**	Dec. 31, 2020
Deferred guarantee fee revenue	**58**	80
Allowance for losses on loan guarantees	**130**	220
Total	**$ 188**	$ 300

MATURITY ANALYSIS

The maturity profile of our insurance in force and loan guarantees is summarized as follows:

(in millions of Canadian dollars)							**Dec. 31, 2021**
	Credit insurance	**Financial institutions insurance**	**International trade guarantee**	**Political risk insurance**	**Loan guarantees**	**Reinsurance ceded***	**Total**
2022	**11,585**	**2,302**	**5,079**	**78**	**4,295**	**(217)**	**23,122**
2023	**2,281**	**61**	**2,956**	**28**	**44**	**–**	**5,370**
2024	**302**	**3**	**414**	**110**	**–**	**–**	**829**
2025	**45**	**–**	**1,988**	**–**	**8**	**–**	**2,041**
2026	**–**	**–**	**32**	**–**	**48**	**–**	**80**
2027 – 2031	**–**	**–**	**1,269**	**195**	**4**	**–**	**1,468**
2032 and beyond	**–**	**–**	**–**	**68**	**–**	**–**	**68**
Total	**$ 14,213**	**$ 2,366**	**$ 11,738**	**$ 479**	**$ 4,399**	**$ (217)**	**$ 32,978**

** Represents treaty reinsurance agreements covering most bonding obligors and the short-term export credit insurance portfolio, including most foreign bank exposures.*

(in millions of Canadian dollars)							Dec. 31, 2020
	Credit insurance	Financial institutions insurance	International trade guarantee	Political risk insurance	Loan guarantees	Reinsurance ceded*	Total
2021	11,411	2,839	4,437	99	4,075	(218)	22,643
2022	2,477	58	2,843	100	76	–	5,554
2023	450	–	551	18	18	–	1,037
2024	24	–	370	139	–	–	533
2025	–	–	1,870	–	–	–	1,870
2026	–	–	8	–	1	–	9
2027 – 2031	–	–	1,216	208	3	–	1,427
2032 and beyond	–	–	–	87	–	–	87
Total	$ 14,362	$ 2,897	$ 11,295	$ 651	$ 4,173	$ (218)	$ 33,160

** Represents treaty reinsurance agreements covering most bonding obligors and the short-term export credit insurance portfolio, including most foreign bank exposures.*

LEGAL PROCEEDINGS

We are involved in various legal proceedings in the ordinary course of business. Management does not expect the outcome of any of these proceedings to have a material effect on our consolidated financial position or our results of operations.

18. Insurance Risks

INSURANCE AND FINANCIAL RISK

We principally issue insurance to our customers to protect them against non-payment by an obligor and/or other losses. Guarantees and surety bond insurance are typically issued to the counterparties of our customers in order to provide them with recourse should our customers not perform as contracted.

We define insurance risk to be the risk of loss or harm due to actual experience being different from that assumed when an insurance product was designed and priced.

The risks within our insurance program are mitigated by diversification across geographical markets, industries and a portfolio of insurance contracts across uncorrelated product lines. We further manage our risk through the application of a detailed underwriting process which ensures that exposures receive tiered levels of due diligence based on their size and level of risk. Our risk acceptance decisions are supported by our resources in the areas of economics, political risk and legal. Our risk management procedures also include the use of risk transfer arrangements.

The core operating principles for risk transfer activities are to (1) mitigate potential large losses due to existing high concentration in obligor, industry and country risk, (2) protect from credit deterioration within the portfolio and (3) proactively acquire additional credit capacity.

We engage in various risk transfer activities primarily through co-insurance and reinsurance. Co-insurance can be defined as leveraging another insurer's capacity by jointly sharing the risk of the original insurance policy. A co-insurance agreement is typically put in place at the time of origination of the transaction. Under this structure, we are not exposed to the credit risk of the co-insurer.

Under a reinsurance structure, we assume the risk of the original policy, and cede that risk to a counterparty (the "reinsurer") to limit our exposure to large losses. We have treaty reinsurance agreements covering the short-term export credit insurance portfolio, most bonding and foreign bank exposures, and the political risk insurance portfolio. We additionally have facultative reinsurance agreements covering specific credit insurance policies and buyers and some large bonding obligors, as well as specific political risk insurance policies. Reinsurance contracts do not relieve us of our obligations to the insured; however, they do provide for the recovery of claims arising from the liabilities ceded. Under a reinsurance structure, we are exposed to the credit risk of the reinsurer (referred to as counterparty risk). To help mitigate this risk, our placement of reinsurance is diversified such that it is not dependent on a single reinsurer. Reinsurance counterparty exposure is managed under our reinsurance counterparty management procedures and monitored by our Global Risk Management Group.

In addition to our risk management procedures discussed above, our Claims and Recoveries team thoroughly reviews debt files at all stages of the overdue, claim and recovery process. This team manages and pursues debt files to minimize losses. Continuously evolving documentation and analytical standards also ensure that the claims process and its outcomes are appropriate and consistent.

We also manage our exposure through policy structuring measures including the use of maximum liability amounts and risk sharing with our customers on certain contracts.

Note that the terms "exposure" and "insurance in force" are used interchangeably throughout this section to refer to the lesser of current policy declarations and the total maximum liability of all active policies at the reporting date. In this section, issued and assumed policies are grouped together to reflect their similar risk impacts to EDC.

CONCENTRATIONS OF INSURANCE RISK

Management identifies concentrations of insurance risk through the review of portfolio data and sensitivity analysis. Risk limits are imposed at the insurance product level to ensure that we are not over-exposed to any one risk. Concentrations of insurance risk can result from large policies with specific entities, as well as from geographical region. Concentrations of risk for our insurance business are discussed below based on the four principal insurance solutions that we underwrite.

Credit Insurance

Credit insurance protects exporters of goods and services trading on credit terms of generally up to one year against non-payment due to commercial and political risks. Commercial and political risks covered include buyer insolvency, default, repudiation of goods by buyer, contract cancellation and conversion and risk transfer, cancellation of export or import permits or war-related risks.

Our primary risk in our credit insurance solution is the credit risk of our customers' obligors. During our underwriting process, our assessment considers both an entity's ability and willingness to pay. Ability to pay is primarily based on the financial strength, operations and leadership of the entity (commercial or sovereign) that is the source of our risk. Other factors, such as the environment of the entity's industry, the economy and political and geographical events are also considered. Willingness to pay is assessed based on the entity's payment history, reputation and governance.

We use a rating system to assign risk levels to our customers' obligors. Buyer credit limits for each obligor are then established and approved for specified periods of time. The percentage of outstanding buyer limits based on the internal ratings assigned to the policyholders' obligors, as well as the equivalent external ratings, were as follows:

			Dec. 31, 2021	Dec. 31, 2020
Internal risk level	**Standard & Poor's**	**Moody's**	**Percentage of outstanding buyer limits**	Percentage of outstanding buyer limits
Low	**AAA to A-**	**Aaa to A3**	**25%**	29%
Moderate	**BBB+ to BBB-**	**Baa1 to Baa3**	**24%**	24%
Medium	**BB+ to BB**	**Ba1 to Ba2**	**22%**	21%
High	**BB- to B-**	**Ba3 to B3**	**24%**	20%
Priority watch	**CCC+ to D**	**Caa1 to C**	**5%**	6%

The major concentrations of risk by country based on the actual declared exposure for credit insurance were as follows:

(in millions of Canadian dollars)			Dec. 31, 2021				Dec. 31, 2020
	Credit insurance	**Reinsurance ceded**	**Net credit insurance**		Credit insurance	Reinsurance ceded	Net credit insurance
United States	**7,960**	**(204)**	**7,756**	United States	7,912	(69)	7,843
Canada	**1,078**	**(8)**	**1,070**	Canada	767	–	767
Brazil	**548**	**(34)**	**514**	Brazil	610	–	610
Mexico	**434**	**(5)**	**429**	China	594	–	594
China	**426**	**(10)**	**416**	Mexico	566	–	566
Others	**4,163**	**(135)**	**4,028**	Others	4,016	(34)	3,982
Total	**$ 14,609**	**$ (396)**	**$ 14,213**	Total	$ 14,465	$ (103)	$ 14,362

Financial Institutions Insurance

Financial institutions insurance supports Canadian exporters with credit risk and payment risk mitigation on terms of generally less than one year. Within our financial institutions insurance solution, our primary risk lies with the credit rating of the counterparty bank. At the end of 2021, our financial institutions insurance policies had insurance exposure outstanding of $1,107 million (2020 – $1,450 million) that was rated as investment grade and $1,259 million (2020 – $1,447 million) rated as non-investment grade.

Additional risk can arise from significant transactions within a geographical region. The major concentrations of risk by country for financial institutions insurance, based on the total potential risk exposure, were as follows:

(in millions of Canadian dollars)	**Dec. 31, 2021**		Dec. 31, 2020
Canada	**431**	United States	389
Brazil	**246**	Turkey	274
Turkey	**240**	Canada	263
United States	**239**	South Korea	231
China	**222**	China	194
Other	**988**	Other	1,546
Total	**$ 2,366**	Total	$ 2,897

International Trade Guarantee

Our international trade guarantee solution provides cover for sales on exposure terms often greater than one year and includes export credit insurance and guarantees, performance guarantees and surety, as well as extending cover for risks inherent in performance-related obligations. We issue performance security guarantees which provide coverage to the exporter's bank for up to 100% of the guarantee value in the event of any call by the buyer. Financial security guarantees are issued to provide coverage to the exporter's bank for up to 100% of the guarantee value in the event of any call by the supplier and foreign bank. These guarantees stipulate a recovery provision whereby the exporter agrees to indemnify us should a payment be made under the guarantee. Unless otherwise stated, the indemnification agreement generally ranks as an unsecured liability of the exporter. Foreign exchange guarantees are also issued which provide a guarantee to secure the settlement risks associated with foreign exchange forward contracts.

The primary source of risk within our international trade guarantee solution is the credit rating of our policies' obligors. We assign an internal risk rating to each policy's obligor, based on a number of factors, including external credit rating and country of transaction.

The major concentrations of risk by internal risk rating based on the total insurance in force for the international trade guarantee solution were as follows:

(in millions of Canadian dollars)	**Dec. 31, 2021**	Dec. 31, 2020
Internal risk level	**Outstanding risk exposure**	Outstanding risk exposure
AA to BBB-	**7,232**	6,311
BB+ to B-	**4,068**	4,461
CCC+ and below	**438**	523
Total	**$ 11,738**	$ 11,295

The major concentrations of risk by country for the international trade guarantee solution, based on total insurance in force, were as follows:

(in millions of Canadian dollars)		**Dec. 31, 2021**					Dec. 31, 2020
	International trade guarantee	**Reinsurance ceded**	**Net international trade guarantee**		International trade guarantee	Reinsurance ceded	Net international trade guarantee
Canada	**12,155**	**(579)**	**11,576**	Canada	11,996	(885)	11,111
Brazil	**82**	**–**	**82**	Brazil	90	–	90
United States	**23**	**–**	**23**	United States	36	–	36
Italy	**16**	**–**	**16**	China	12	–	12
China	**13**	**–**	**13**	Kuwait	7	–	7
Other	**28**	**–**	**28**	Other	39	–	39
Total	**$ 12,317**	**$ (579)**	**$ 11,738**	Total	$ 12,180	$ (885)	$ 11,295

Political Risk Insurance

Political risk insurance provides risk protection for equity and other investments abroad with the underwriting based primarily on political risks. Our risk assessment considers politically motivated events that may jeopardize our customers' assets or income in a foreign market. As a baseline for our risk assessment of a given market, we assess the transfer and convertibility of local currency, expropriation risk as well as the risk of political violence. The policyholder can request coverage for multiple countries; however, our risk exposure is limited to the maximum liability of the policy.

Our major country exposures for political risk insurance by total insurance in force were as follows:

(in millions of Canadian dollars)			**Dec. 31, 2021**				Dec. 31, 2020
	Political risk insurance	**Reinsurance ceded**	**Net political risk insurance**		Political risk insurance	Reinsurance ceded	Net political risk insurance
Ghana	**169**	**(82)**	**87**	China	776	(640)	136
Angola	**84**	**–**	**84**	Angola	117	(6)	111
China	**132**	**(54)**	**78**	Ghana	219	(117)	102
United Arab Emirates	**103**	**(36)**	**67**	United Arab Emirates	135	(47)	88
Barbados	**91**	**(38)**	**53**	Thailand	654	(590)	64
Cameroon	**149**	**(100)**	**49**	Barbados	102	(46)	56
Egypt	**98**	**(60)**	**38**	Brazil	391	(338)	53
Brazil	**356**	**(320)**	**36**	Cameroon	157	(108)	49
Mexico	**42**	**(14)**	**28**	Egypt	109	(67)	42
Jamaica	**399**	**(386)**	**13**	El Salvador	401	(368)	33
Other	**170**	**(86)**	**84**	Other	1,333	(1,027)	306
	1,793	**(1,176)**	**617**		4,394	(3,354)	1,040
Country limits in excess of policy limits	**(581)**	**443**	**(138)**	Country limits in excess of policy limits	(2,344)	1,955	(389)
Total	**$ 1,212**	**$ (733)**	**$ 479**	Total	$ 2,050	$ (1,399)	$ 651

Risks and Sensitivities

There is a limitation upon the accuracy of the premium and claims liabilities as there is an inherent uncertainty in any estimate of premium and claims liabilities. There is uncertainty in any estimate because future events could affect the ultimate claim amounts. Examples of future events include, but are not limited to:

(1) economic cycles;

(2) higher than anticipated claim development;

(3) concentration of credit losses; and

(4) geo-political considerations.

Therefore, the actual ultimate claim amount may differ materially from estimates. However, we have employed standard actuarial techniques and appropriate assumptions to mitigate this risk.

Refer to Note 15, regarding estimates used regarding the anticipated impacts of COVID-19.

The following table illustrates the impact on net income of variations in key risk components. These risk components are analyzed and estimated using EDC's own loss experience. A qualitative component is added to these quantitative risk components as warranted by the external factors previously mentioned.

A 10% change was applied to key risk components and the impact on premium and claims liabilities was quantified.

Key Risks Sensitivities

(in millions of Canadian dollars)				**Dec. 31, 2021**
	Changes in assumptions	**Impact on gross liabilities**	**Impact on net liabilities**	**Impact on net income**
Frequency of claims	**+10%**	**26**	**21**	**(21)**
Frequency of claims	**-10%**	**(26)**	**(21)**	**21**
Severity of claims	**+10%**	**34**	**25**	**(25)**
Severity of claims	**-10%**	**(34)**	**(25)**	**25**
Foreign exchange rates	**+10%**	**45**	**34**	**(34)**
Foreign exchange rates	**-10%**	**(48)**	**(35)**	**35**
Expected Loss Ratio	**+10%**	**11**	**11**	**(11)**
Expected Loss Ratio	**-10%**	**(11)**	**(11)**	**11**

(in millions of Canadian dollars)				Dec. 31, 2020
	Changes in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on net income
Frequency of claims	+10%	41	33	(33)
Frequency of claims	-10%	(42)	(33)	33
Severity of claims	+10%	50	37	(37)
Severity of claims	-10%	(50)	(37)	37
Foreign exchange rates	+10%	68	50	(50)
Foreign exchange rates	-10%	(61)	(48)	48
Expected Loss Ratio	+10%	18	18	(18)
Expected Loss Ratio	-10%	(18)	(18)	18

Claims Development

As time passes, the ultimate cost for the claims becomes more certain. The chart below compares actual claims with previous estimates for the credit insurance portfolio:

(in millions of Canadian dollars)

Underwriting Year	2017	2018	2019	2020	2021	**Total**
Estimate of ultimate claims:						
At end of underwriting year	150	57	85	190	86	
One year later	159	60	95	97		
Two years later	154	60	86			
Three years later	156	56				
Four years later	153					
Estimate of ultimate claims at Dec. 31, 2021	153	56	86	97	86	**478**
Cumulative incurred losses at Dec. 31, 2021	(153)	(56)	(83)	(70)	(12)	**(374)**
Effect of margin and discounting	–	–	1	5	11	**17**
2017-2021 Claim Liabilities (IBNR) at Dec. 31, 2021	–	–	4	32	85	**121**
2007-2016 Claim Liabilities (IBNR) at Dec. 31, 2021						**1**
2007-2021 Claim Liabilities (IBNR) at Dec. 31, 2021						**$ 122**

19. Share Capital

EDC's authorized share capital is $15.0 billion consisting of 150 million shares with a par value of $100 each (2020 – $15.0 billion consisting of 150 million shares). The number of shares issued and fully paid is 123 million (2020 – 123 million). These shares entitle our shareholder to receive a dividend from time to time. No shares were issued in 2021 (2020 – 109,668 thousand shares).

In 2021, we declared and paid a dividend of $580 million according to our current dividend policy, as well as a special dividend of $6.7 billion based on the capital surplus position of the Business Credit Availability Program (BCAP) and a targeted Internal Capital Adequacy Assessment Process (ICAAP) ratio, to the Government of Canada (2020 – nil). The dividend per share in 2021 was $59.19 (2020 – nil).

As agreed to with our shareholder, future dividends and/or special dividends will be paid by way of a share buyback until such time that our share capital returns to pre-pandemic levels. In 2022, we are repurchasing shares for a total of $3,810 million based on the capital position of our core programs, BCAP programs and a targeted ICAAP ratio.

20. Capital Management

EDC has a capital management process in place to ensure that we are appropriately capitalized and that our capital position is identified, measured, managed and regularly reported to the Board of Directors. We are not subject to externally imposed capital requirements.

Our primary objective with respect to capital management is to ensure that we have adequate capital to support the evolving needs of Canadian exporters and investors while remaining financially self-sustaining.

We manage our capital through a Board-approved capital management and dividend policy. Under our capital management and dividend policy, we determine whether we have adequate capital by comparing the supply of capital to the demand for capital. The policy also includes an eligible dividend methodology to guide the Board of Directors in determining a potential dividend amount.

We have a capital management framework in place which follows the Internal Capital Adequacy Assessment Process (ICAAP). Demand for capital, which is calculated by models or approaches that estimate the capital required to cover potential losses consistent with an AA solvency level, includes credit risk, market risk, operational risk, pension plan funding risk and strategic risk. The supply of capital is determined by our consolidated financial statements and consists of paid-in share capital and retained earnings. Our dividend policy compares our supply of capital at year-end to the demand for capital and returns the capital surplus over a planning horizon of five years.

A key principle in our capital management is the establishment of a target solvency standard or credit rating which determines the level of demand for capital that is required to cover EDC's exposures in exceptional circumstances. We target a level of capitalization sufficient to cover potential losses consistent with a rating standard of AA.

21. Fair Value of Financial Instruments

Fair value represents our estimation of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

As with any estimate, uncertainty is inherent due to the unpredictability of future events. In the case of estimating the fair value of our financial instruments, this uncertainty is magnified due to the large number of assumptions used and the wide range of acceptable valuation techniques. Estimates of fair values are based on market conditions at a certain point in time, and may not be reflective of future market conditions. Therefore, the estimates of the fair value of financial instruments outlined do not necessarily reflect the actual values that may occur should the instruments be exchanged in the market.

We have controls and policies in place to ensure that our valuations are appropriate and realistic. In general, the methodologies, models and assumptions used to measure the fair value of our financial assets and liabilities are determined by our Global Risk Management group, which is not involved in the initiation of the transactions. The models, valuation methodologies, and market-based parameters and inputs that are used are subject to regular review and validation, including a comparison with values from outside agencies. In limited circumstances where the valuation of a financial instrument is not independent from the initiation of the transaction, the resulting valuation is subject to review by a valuation committee. The valuation committee meets periodically. Instruments are reviewed and placed on the fair value hierarchy by the valuation committee before being fully implemented.

We categorize financial instruments on the fair value hierarchy based on whether the inputs to the valuation techniques are observable or unobservable.

- *Level 1* – fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- *Level 2* – fair values are determined using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- *Level 3* – fair values are determined using inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The assumptions and valuation techniques that we use to estimate fair values are as follows:

LOANS RECEIVABLE

In order to estimate the fair value of our performing loans receivable (including accrued interest and fees receivable net of deferred loan revenue), we separate them into risk pools and calculate the net present value of principal and interest cash flows. The discount rates are obtained from yield curves for each risk pool and are specific to the credit risk and term to maturity associated with each principal and interest cash flow.

The fair value of impaired loans is considered to be equal to their carrying value. Once a loan has been assessed as impaired, the carrying value is reduced to reflect the present value of any estimated future cash flows discounted at the loan's original effective interest rate.

Loans receivable valued using unobservable market inputs, such as yield curves for low credit-rated loans, are categorized as Level 3 in the fair value hierarchy.

MARKETABLE SECURITIES

We estimate the fair value of marketable securities using observable market prices. If such prices are not available, we determine the fair value by discounting future cash flows using a yield curve that is based on the attributes of the security, current market conventions, collateral held, and other factors.

INVESTMENTS

Our approach to fair value measurement has been developed using International Private Equity and Venture Capital Valuation Guidelines. Depending on the type of direct investment, we estimate fair value using one of the following: market-based methodologies, such as the quoted share price from available market data, price of recent investment, multiples, or industry benchmarks; income-based methodologies such as discounted cash flows; or replacement cost-based methodology such as net assets. Our fund valuations are performed using their most recent published financial statements. The valuations are established by investment managers, reviewed by management and approved by an independent valuation committee that is comprised of representatives from our Global Risk Management and Finance groups. The valuation methods are constantly validated and calibrated through discussions with co-investors and market participants, taking into account all known market events.

In the process of assessing the fair value for certain investment instruments, estimates determined in a manner consistent with industry practice are employed in the models which cannot be directly observed in the market. EDC's unobservable estimates are outlined in the table below:

(in millions of Canadian dollars)

Valuation technique	Unobservable input	Range (average)	Fair value at Dec. 31, 2021[1]
Multiples	Multiple (Sales or EBITDA[2])	0.0 – 12.6 (5.2)	**277**
	Discount Rate	0% – 50% (31%)	**53**
Discounted Cash Flows	Discount Rate	0% – 50% (14%)	**23**

[1] *The valuation of an investment may use multiple unobservable inputs and therefore its fair value can be included multiple times in the fair value amounts.*

[2] *Earnings before interest, taxes, depreciation and amortization.*

OTHER ASSETS AND ACCOUNTS PAYABLE AND OTHER CREDITS

The fair value of short-term other assets and accounts payable and other credits are assumed to equal their carrying value due to their short-term nature. For long-term other assets and accounts payable, we estimate fair value by discounting future cash flows using a yield curve appropriate to the related risks. The fair value of recoverable insurance claims is evaluated on a case-by-case basis. Specific knowledge of the counterparty, country and state of negotiations are taken into account for estimating the likely recoverable amount.

LOANS PAYABLE

The fair value of our less complex loans payable is determined using the discounted cash flow method. Forward rates are used to value floating rate cash flows occurring in the future. Cash flows are discounted using the respective currency's yield curve. Inputs to the models are market observable and may include interest rate yield curves and foreign exchange rates.

For our more complex loans payable which may include optionality, we estimate fair value using valuation models when independent market prices are not available. Inputs to these models include option volatilities and correlations in addition to interest rate yield curves and foreign exchange rates. All models are reviewed on a three year rotational basis and are calibrated automatically each time a model is employed in valuing a deal. Changes in fair value are analyzed every month.

When EDC transacts in callable/extendible notes, we hedge them using interest rate and cross currency swaps that includes matching callable/extendible terms. Thus, any slight inaccuracy in the derivation of expected future payments on these notes or their valuation is negated by the opposite valuation and derivation of the expected future payments from the related swap.

DERIVATIVE INSTRUMENTS

Foreign exchange forwards and foreign exchange swaps are valued by discounting the notional amounts using the respective currency's yield curve and converting the amounts using the spot Canadian dollar exchange rate.

Interest rate and cross currency interest rate swaps are valued using a discounted cash flow method. Forward rates are used to determine floating rate cash flows occurring in the future. Cash flows are discounted using the respective currency's yield curve. Inputs to the models are market observable and may include interest rate yield curves and foreign exchange rates.

For more complex swaps which may include optionality, including cross currency interest rate swaps, interest rate swaps and non-deliverable forwards, the fair value is determined using models which are developed from recognized valuation techniques, validated and managed in the same manner as our more complex loans payable as described above.

The valuations determined using the methodologies described above are adjusted for the credit risk of the counterparty where appropriate.

LOAN GUARANTEES

We estimate the fair value of loan guarantees as the calculated allowance for losses before taking into account any deferred guarantee fee revenue already received. This represents management's best estimate of expected credit losses and is based on the expected loss model.

FAIR VALUE HIERARCHY

The following table presents the fair value hierarchy of our financial instruments:

(in millions of Canadian dollars)					Dec. 31, 2021					Dec. 31, 2020
	Level 1	Level 2	Level 3	Total fair value	Carrying value	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets										
Performing fixed rate loans	–	9,784	2,196	11,980	11,513	–	12,529	2,188	14,717	13,636
Performing floating rate loans	–	33,635	901	34,536	33,936	–	36,768	1,359	38,127	37,746
Total performing loans receivable	–	43,419	3,097	46,516	45,449	–	49,297	3,547	52,844	51,382
Impaired loans	–	1,136	–	1,136	1,136	–	710	–	710	710
Loans receivable and accrued interest and fees	–	44,555	3,097	47,652	46,585	–	50,007	3,547	53,554	52,092
Marketable securities	4,912	4,170	–	9,082	9,082	4,922	5,641	–	10,563	10,563
Derivative instruments	–	1,139	–	1,139	1,139	–	2,126	–	2,126	2,126
Investments	334	–	2,373	2,707	2,707	128	–	1,904	2,032	2,032
Other assets	169	8	27	204	205	219	15	28	262	260
Liabilities										
Accounts payable and other credits	178	6	–	184	185	165	14	–	179	179
Loans payable	–	43,549	–	43,549	43,525	–	45,118	–	45,118	45,020
Derivative instruments	–	1,003	–	1,003	1,003	–	1,623	–	1,623	1,623
Loan guarantees	–	132	–	132	188	–	264	–	264	300

The following table summarizes the reconciliation of Level 3 fair values between 2021 and 2020 for other assets and investments:

(in millions of Canadian dollars)			2021
	Other assets*	Investments	Total
Balance beginning of year	28	1,904	1,932
Decrease in other assets	(1)	–	(1)
Unrealized gains (losses) included in other (income) expenses	–	361	361
Purchases of assets/issuances of liabilities	–	422	422
Return of capital	–	(296)	(296)
Transfer out of Level 3	–	(12)	(12)
Foreign exchange translation	–	(6)	(6)
Balance end of year	$ 27	$ 2,373	$ 2,400
Total gains (losses) for the year included in comprehensive income for instruments held at end of the year	$ (1)	$ 510	$ 509

** Consists of recoverable insurance claims.*

(in millions of Canadian dollars)			2020
	Other assets*	Investments	Total
Balance beginning of year	25	1,622	1,647
Increase in other assets	3	–	3
Unrealized gains (losses) included in other (income) expenses	–	103	103
Purchases of assets/issuances of liabilities	–	387	387
Return of capital	–	(161)	(161)
Transfer out of Level 3	–	(24)	(24)
Foreign exchange translation	–	(23)	(23)
Balance end of year	$ 28	$ 1,904	$ 1,932
Total gains (losses) for the year included in comprehensive income for instruments held at end of the year	$ 3	$ 124	$ 127

** Consists of recoverable insurance claims.*

Changes in valuation methods may result in transfers into or out of Levels 1, 2 and 3. No transfers occurred in 2021 as a result of changes in valuation methodology (2020 – nil). All transfers out of level 3 to Level 1 were the result of investments converting instruments to those with quoted prices in active markets.

In 2021, a sensitivity analysis was performed using possible alternative assumptions to recalculate the fair value of our Level 3 financial instruments. The fair value of Level 3 financial instruments is in whole or in part based on unobservable inputs. In preparing financial statements, appropriate levels for these unobservable inputs parameters are chosen so that they are consistent with prevailing market evidence or management judgment.

In order to perform our sensitivity analysis for our Level 3 investments, we adjusted the unobservable inputs. The unobservable inputs used to value our Level 3 investments include one or more of the following: multiple of sales, liquidity discount, multiple of EBITDA and discount rate. When multiple unobservable inputs are shocked, no netting is considered, resulting in the highest favourable or unfavourable change. The results of our analysis on our Level 3 investments as at December 31, 2021 ranged from an unfavourable change of $303 million to a favourable change of $296 million.

22. Financial Instrument Risks

The principal risks that we are exposed to as a result of holding financial instruments are credit risk, market risk and liquidity risk.

CREDIT RISK

Credit risk is the risk of loss incurred if a counterparty fails to meet its financial commitments. Credit risk may arise from lending and guarantee exposures, equity investment transactions, insurance claims, counterparty credit defaults, and concentration or portfolio composition. We are exposed to credit risk on financial instruments under both our loans program and our treasury activities. Our objectives, policies and processes for managing credit risk as well as the methods we use to measure this risk are disclosed in the notes related to our derivative instruments and debt instruments, as well as in the green text in management's discussion and analysis on **pages 92 to 93** and **98 to 102** of this annual report.

Concentration of Credit Risk

Concentration of credit risk exposure exists when a number of counterparties operate in the same geographical market or industry, or engage in similar activities. Changes in economic or political conditions may affect their ability to meet obligations in a similar manner. We have limits in place to ensure that our exposure is not overly concentrated in any one country, industry or counterparty. Exposure in excess of these limits requires the approval of our Board of Directors.

The following table provides a breakdown, by the country in which the risk resides, of the maximum gross exposure to credit risk of financial instruments:

(in millions of Canadian dollars)	**Gross loans receivable**	**Loan guarantees**	**Investments**	**Marketable securities and derivative instruments***	**Risk transfer**	**Dec. 31, 2021 Exposure**		Dec. 31, 2020 Exposure	
Country						**$**	**%**	$	%
United States	**6,320**	**227**	**133**	**7,258**	**70**	**14,008**	**21**	17,143	23
Canada	**6,551**	**3,677**	**1,809**	**1,674**	**81**	**13,792**	**21**	14,378	19
United Kingdom	**5,944**	**2**	**–**	**56**	**517**	**6,519**	**10**	6,498	9
Chile	**4,306**	**6**	**–**	**–**	**(126)**	**4,186**	**6**	3,834	5
Australia	**3,189**	**23**	**–**	**504**	**–**	**3,716**	**6**	3,821	5
India	**2,078**	**6**	**206**	**–**	**(13)**	**2,277**	**4**	2,713	4
Germany	**2,035**	**–**	**–**	**40**	**–**	**2,075**	**3**	2,622	3
Mexico	**2,047**	**50**	**9**	**6**	**(253)**	**1,859**	**3**	2,629	4
Spain	**1,631**	**–**	**–**	**–**	**–**	**1,631**	**2**	1,161	2
China	**1,179**	**1**	**248**	**–**	**–**	**1,428**	**2**	1,285	2
Other	**13,157**	**407**	**302**	**890**	**(276)**	**14,480**	**22**	17,764	24
Total	**$ 48,437**	**$ 4,399**	**$ 2,707**	**$ 10,428**	**$ –**	**$ 65,971**	**100**	$ 73,848	100

** Includes cash.*

The concentration of credit risk by industry for our financial instruments was as follows:

(in millions of Canadian dollars)	**Gross loans receivable**	**Loan guarantees**	**Investments**	**Marketable securities and derivative instruments(1)**	**Risk transfer**	**Dec. 31, 2021 Exposure**		Dec. 31, 2020 Exposure	
Industry(2)						**$**	**%**	$	%
Commercial:									
Transportation and storage	**14,650**	**219**	**24**	**–**	**(72)**	**14,821**	**23**	16,084	22
Finance and insurance	**3,272**	**60**	**1,713**	**2,849**	**866**	**8,760**	**13**	10,475	14
Manufacturing	**6,672**	**1,373**	**159**	**–**	**–**	**8,204**	**12**	11,484	16
Utilities	**6,308**	**63**	**31**	**–**	**–**	**6,402**	**10**	6,235	8
Resources	**6,567**	**295**	**33**	**–**	**(772)**	**6,123**	**9**	6,866	9
Information	**3,330**	**272**	**118**	**–**	**(13)**	**3,707**	**6**	4,187	6
Commercial properties	**2,712**	**52**	**–**	**–**	**(9)**	**2,755**	**4**	2,997	4
Wholesale and retail trade	**1,445**	**853**	**79**	**–**	**–**	**2,377**	**4**	2,462	3
Professional services	**1,250**	**300**	**415**	**–**	**–**	**1,965**	**3**	1,739	2
Construction	**577**	**221**	**13**	**–**	**–**	**811**	**1**	609	1
Other	**573**	**667**	**122**	**–**	**–**	**1,362**	**2**	1,099	2
Total commercial	**47,356**	**4,375**	**2,707**	**2,849**	**–**	**57,287**	**87**	64,237	87
Sovereign	**1,081**	**24**	**–**	**7,579**	**–**	**8,684**	**13**	9,611	13
Total	**$ 48,437**	**$ 4,399**	**$ 2,707**	**$ 10,428**	**$ –**	**$ 65,971**	**100**	$ 73,848	100

(1) Includes cash.

(2) The current year has been prepared with the North American Industry Classification System (NAICS). Prior year amounts have been reclassified and are grouped in accordance with NAICS.

The following table presents the reclassification of the prior year commercial figures from the concentration of credit risk by industry to presentation in accordance with NAICS:

	Previous Industry Classification								
(in millions of Canadian dollars)	Aerospace	Infrastructure and environment	Financial institutions	Surface transportation	Oil and gas	Mining	Information and communication technologies	Other	Total commercial
NAICS									
Transportation and storage	8,862	1,016	–	4,646	1,359	52	1	148	16,084
Manufacturing	622	613	–	2,337	2,274	1,681	158	3,799	11,484
Finance and insurance	86	375	8,625	251	3	26	648	461	10,475
Resources	5	23	10	1	2,017	4,409	5	396	6,866
Utilities	–	6,093	–	–	142	–	–	–	6,235
Information	2	1	89	–	–	–	4,062	33	4,187
Commercial properties	1,546	32	336	1,010	26	–	45	2	2,997
Wholesale and retail trade	22	89	8	185	186	68	94	1,810	2,462
Professional services	1	549	12	54	350	2	581	190	1,739
Construction	–	535	–	2	31	4	6	31	609
Other	42	172	3	5	1	5	339	532	1,099
Total commercial	$ 11,188	$ 9,498	$ 9,083	$ 8,491	$ 6,389	$ 6,247	$ 5,939	$ 7,402	$ 64,237

MARKET RISK

Market risk is the risk of loss or harm due to adverse movements in market prices, interest rates and/or foreign exchange rates. We are exposed to potential negative impacts on the value of financial instruments resulting from adverse movements in interest and foreign exchange rates. We have policies and procedures in place to ensure that interest rate and foreign exchange risks are identified, measured, managed and regularly reported to management and the Board of Directors.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. We are exposed to potential adverse impacts on the value of financial instruments resulting from differences in the maturities or repricing dates of assets and liabilities, as well as from embedded optionality in those assets and liabilities.

FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk of loss or harm due to changes in spot and forward prices, and/or volatility of currency exchange rates. We are exposed to foreign exchange risk when there is a mismatch between assets and liabilities in any currency.

Our objectives, policies and processes for managing market risk as well as a sensitivity analysis for our exposure to both interest rate and foreign exchange risk are disclosed in the text and tables highlighted in management's discussion and analysis on **pages 100** and **101** of this annual report.

LIQUIDITY RISK

Liquidity risk is the risk that we would be unable to honour daily cash commitments or the risk that we would have to obtain funds rapidly, possibly at an excessively high premium during severe market conditions. We maintain liquidity through a variety of methods such as holding cash and marketable securities and having access to commercial paper markets.

Our objectives, policies and processes for managing liquidity risk as well as the methods we use to measure this risk are disclosed in the text and tables highlighted in management's discussion and analysis on **page 102** of this annual report.

23. Contractual Obligations

In the normal course of business, we enter into contracts that give rise to obligations of future minimum payments.

Purchase obligations include those obligations that are legally binding agreements whereby we have agreed to purchase products or services with specific minimum quantities defined as fixed, minimum or variable in price over a specified period of time.

As at December 31, 2021, purchase obligations not otherwise disclosed in the notes to our consolidated financial statements amounted to $208 million (2020 – $192 million).

24. Structured Entities

A structured entity (SE) is defined as an entity created to accomplish a narrow and well-defined objective. The SE is designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Under *IFRS 10 – Consolidated Financial Statements*, when a reporting entity has power over an SE and is exposed, or has rights to variable returns from its involvement with an SE and has the ability to affect those returns through its power over the SE, the reporting entity is considered to have control over the SE which must be consolidated within the reporting entity's financial statements. When the reporting entity does not control the SE, consolidation is not permitted under IFRS 10.

CONSOLIDATED STRUCTURED ENTITIES

Aircraft and helicopters that have been repossessed due to loan foreclosures are placed into trusts which are considered to be SEs that we control. These structured entities had total assets of $1 million at the end of 2021 (2020 – $9 million).

UNCONSOLIDATED STRUCTURED ENTITIES

In the normal course of business, we sometimes provide financing and in some cases guarantees to equity investors via SEs, typically in the transportation and extractive industries. As we do not control these entities, they do not permit consolidation under IFRS 10. The following table summarizes our maximum exposure to loss for transactions structured through SEs as well as the carrying values recognized in the Consolidated Statement of Financial Position of EDC's interest in these unconsolidated SEs.

(in millions of Canadian dollars)	**Dec. 31, 2021**	Dec. 31, 2020
SEs included in the Consolidated Statement of Financial Position		
Loans receivable	**12,180**	14,334
Allowance for losses on loans	**(606)**	(982)
Net loans receivable	**11,574**	13,352
Fund investments	**1,816**	1,481
Maximum exposure in the Consolidated Statement of Financial Position	**13,390**	14,833
Commitments and guarantees*		
Commitments		
Signed loan agreements	**1,833**	1,458
Letters of offer	**153**	478
Fund investments	**880**	767
Guarantees provided to equity holders	**18**	116
Maximum exposure to commitments and guarantees	**2,884**	2,819
Maximum exposure to structured entities	**$ 16,274**	$ 17,652

** Included in commitments and guarantees in Note 16.*

We invest in funds which are pooled investment vehicles structured as limited partnerships and financed by the limited partners. These funds invest primarily in private or public companies and are considered to be SEs.

25. Loan Revenue

(in millions of Canadian dollars)	**2021**	2020
Loan interest – floating rate	**826**	1,147
Loan interest – fixed rate	**421**	485
Loan fee revenue	**165**	153
Impaired revenue	**50**	45
Total	**$ 1,462**	$ 1,830

26. Interest Expense

(in millions of Canadian dollars)	**2021**	2020
Loans payable and derivatives		
Short-term payables	**30**	155
Long-term payables and derivatives – floating	**107**	382
Long-term payables and derivatives – fixed*	**182**	220
Other	**5**	3
Total	**$ 324**	$ 760

** Includes interest expense for debt classified at amortized cost of $81 million (2020 – $114 million).*

27. Net Insurance Premiums and Guarantee Fees

(in millions of Canadian dollars)			**2021**			2020
	Direct premiums and guarantee fees	**Reinsurance premiums ceded**	**Net premiums and guarantee fees**	Direct premiums and guarantee fees	Reinsurance premiums ceded	Net premiums and guarantee fees
Credit insurance	**139**	**(16)**	**123**	126	(14)	112
Financial institutions insurance	**9**	**(1)**	**8**	13	(1)	12
International trade guarantee	**125**	**(10)**	**115**	108	(9)	99
Political risk insurance	**12**	**(6)**	**6**	18	(11)	7
Total	**$ 285**	**$ (33)**	**$ 252**	$ 265	$ (35)	$ 230

28. Net Claims-Related Expenses (Recovery)

Net claims-related expenses (recovery) are charged to profit or loss as they are incurred. These costs arise from the events that have occurred up to the balance sheet date. The composition of net claims-related expenses (recovery), expressed in the Consolidated Statement of Comprehensive Income, was as follows:

(in millions of Canadian dollars)	**2021**	2020
Claims paid	**54**	164
Claims recovered	**(18)**	(27)
Increase (decrease) in the net allowance for claims on insurance	**(122)**	285
(Increase) decrease in reinsurers' share	**33**	(6)
(Increase) decrease in recoverable insurance claims	**1**	(3)
Claims handling expenses	**1**	3
Total	**$ (51)**	$ 416

Of the $54 million in claim payments made during 2021 (2020 – $164 million), 79% was related to our credit insurance solution (2020 – 73% credit insurance). The largest concentrations of claim payments and recoveries were in the following geographic areas:

(in millions of Canadian dollars)		**2021**		2020
	Claims paid	**Claims recovered***	Claims paid	Claims recovered*
North America	**36**	**9**	105	5
Middle East and Africa	**7**	**3**	8	5
South and Central America and the Caribbean	**4**	**3**	21	4
Asia and Pacific	**4**	**2**	10	3
Europe and Commonwealth of Independent States	**3**	**1**	20	10
Total	**$ 54**	**$ 18**	$ 164	$ 27

* *Represents recoveries on claims paid in the current and prior years.*

29. Other (Income) Expenses

(in millions of Canadian dollars)	**2021**	2020
Net realized (gains) losses		
Investments	**(325)**	(24)
Marketable securities	**(27)**	(102)
Sale of loan assets	**37**	10
Foreign exchange translation	**2**	(2)
Other	**(2)**	2
Total net realized (gains) losses	**(315)**	(116)
Net unrealized (gains) losses		
Investments	**(381)**	(204)
Marketable securities	**177**	(114)
Loans payable	**(508)**	395
Derivatives	**286**	(137)
Fair value adjustments on loan disbursements	**–**	(19)
Total net unrealized (gains) losses	**(426)**	(79)
Total	**$ (741)**	$ (195)

30. Administrative Expenses

(in millions of Canadian dollars)	**2021**	2020
Salaries and benefits	**301**	282
Professional services	**84**	44
Pension, other retirement and post-employment benefits	**63**	58
Systems costs	**54**	53
Occupancy	**29**	27
Marketing and communications	**24**	24
Amortization and depreciation	**23**	31
Information services	**22**	21
Travel, hospitality and conferences	**–**	2
Other	**19**	14
Total	**$ 619**	$ 556

31. Retirement Benefit Plans

PENSION PLANS

The Registered Pension Plan (RPP) was established on April 24, 2000 as a defined benefit plan (DB) and, effective January 1, 2012, a defined contribution (DC) component was added. The RPP is registered under the Pension Benefits Standards Act (PBSA) with the Office of the Superintendent of Financial Institutions Canada (OSFI). As a registered pension plan as defined under the *Income Tax Act (ITA)*, the RPP is not subject to income taxes for the contributions or investment income.

For employees who joined the plan prior to January 1, 2012, the DB component of the RPP provides a benefit based on years of pensionable service and the best consecutive five-year average pensionable earnings. Employee and employer contributions are pooled into a fund and the employer directs the investments. Upon retirement, the benefits are fully indexed to inflation and paid from the fund.

For employees who joined the plan on or after January 1, 2012, the DC component of the RPP provides a benefit that is the accumulation of employee and employer contributions and investment income in the employee's account. Employees choose to contribute a fixed percentage from 4% up to a maximum of 6% of their pensionable earnings, which is matched by the employer based on the employee's age and years of eligible service. The contributions are invested as directed by each employee from a selection of available investment options.

When the RPP was established, the Supplementary Retirement Plan (SRP) was also created, the purpose of which is to supplement benefits for members whose benefits and/or contributions under the RPP are affected by *ITA* maximums. The SRP increases their benefits to the level which would be payable under the RPP if these maximums did not apply. Effective January 1, 2012, a DC component was added to the SRP. The RPP and SRP defined benefit plans' durations are 20 and 19 years respectively.

OTHER BENEFIT PLANS

We maintain a closed retiring allowance program (service accumulation ceased July 1, 2013) and provide certain life insurance, health and dental care benefits to retired employees who qualify. These plans are unfunded and EDC contributes the cost of benefits as they are incurred. Costs are accrued based on actuarial calculations. These plans' durations are 20 years.

PLAN AMENDMENTS DURING THE YEAR

In 2021, consistent with EDC's continued commitment to balanced cost-sharing for the DB component of the pension plans, employee contributions for the RPP plan were increased. In addition, the RPP plan text was amended to align to actual plan assumptions in the valuations on pension elections available in the event of a wind up.

GOVERNANCE STRUCTURE

EDC's pension plan governance structure is comprised of the Board of Directors, Human Resources Committee of the Board (HRC), the Management Pension Committee (MPC) at the executive level, the Pension Investment Advisory Committee (PIAC) and the DC Pension Advisory Council (DC Council) at the operational level.

The HRC has oversight responsibilities with respect to pension plan design, amendments, funding, asset mix and investment structure. In addition, the HRC reviews investment policies, goals and performance and seeks and receives assurances from management on pension matters that have been delegated.

The MPC has authority for all decisions about the pension plans that have not been retained by the Board or the HRC. The MPC focuses on key strategic decisions and provides recommendations to the HRC for plan design changes. The MPC approves changes to plan custodians, oversees and supports pension activities undertaken by the PIAC and DC Council. The PIAC monitors funds' investment performance, meets with the investment managers on a periodic basis and provides recommendations to the MPC. The DC Council provides input on the DC component of the plan and needs of members.

RISK MITIGATION

The RPP's and the SRP's investments are subject to a variety of financial instrument risks that could adversely affect the cash flows, financial position and income of the Plans. The Plans' financial risk is concentrated in their investment holdings and includes credit risk, liquidity risk and market risk. The exposure to these risks is not considered to be significant or unusual. For the DB component of the Plans, Statements of Investment Policies and Procedures (SIPP) prescribe an asset mix policy, require portfolio investment diversification and limit exposure to major asset classes to reduce the level of risk. For the DC component, the SIPP describes the investment structure of the offering and the default offering to members. The SIPPs are reviewed at least annually to ensure that changes to the investment policies are made if required.

FUNDING RISK

For the DB component of the pension plans, funding risk is the risk that the investment asset growth and contribution rates of the pension plans will not be sufficient to cover the pension obligations, resulting in unfunded liabilities. In accordance with regulatory requirements, if any unfunded liabilities exist, special contributions are required over specified future periods in order to reduce any deficit determined by the actuarial valuation process. The most significant contributors to funding risk are fluctuations in discount rates and returns on assets.

Benefits for the other benefit plans are unfunded. Funding risk is the risk that cashflows will be insufficient to cover benefits. To mitigate this risk, EDC monitors expected benefit payments projected by the actuary.

OTHER RISKS

DB obligations are subject to measurement uncertainty due to the use of actuarial assumptions such as discount rates, mortality rates, rate of compensation increases as well as withdrawal and retirement rates. The impact of these factors on the DB component of the pension plans and other post-employment benefits can be significant and volatile at times.

The following table presents a reconciliation of the net asset and obligation of the DB component of the pension plans and other post-employment benefit plans, including the present value of the DB retirement benefit obligations and the fair value of plan assets:

(in millions of Canadian dollars)				**2021**				2020
	Registered Pension Plan	**Supplementary Retirement Plan**	**Other benefit plans**	**Total**	Registered Pension Plan	Supplementary Retirement Plan	Other benefit plans	Total
Defined benefit obligations:								
Obligation beginning of year	**1,422**	**138**	**243**	**1,803**	1,275	110	210	1,595
Current service costs	**32**	**3**	**8**	**43**	30	2	8	40
Interest cost on benefit obligation	**41**	**4**	**6**	**51**	42	4	7	53
Employee contributions	**11**	**1**	**–**	**12**	10	1	–	11
Actuarial (gain) loss from:								
changes in plan experience	**3**	**(3)**	**(6)**	**(6)**	(6)	4	(12)	(14)
changes in financial assumptions	**(159)**	**(15)**	**(22)**	**(196)**	97	11	28	136
changes in demographic assumptions	**–**	**–**	**–**	**–**	–	8	4	12
Benefits paid	**(28)**	**(3)**	**(3)**	**(34)**	(26)	(2)	(2)	(30)
Obligation end of year[1]	**1,322**	**125**	**226**	**1,673**	1,422	138	243	1,803
Fair value of plan assets:								
Fair value beginning of year	**1,467**	**119**	**–**	**1,586**	1,363	110	–	1,473
Interest income on plan assets	**41**	**2**	**–**	**43**	44	4	–	48
Return (loss) on plan assets, excluding interest income on plan assets	**132**	**9**	**–**	**141**	54	(1)	–	53
Employer contributions	**31**	**12**	**3**	**46**	23	7	2	32
Employee contributions	**11**	**1**	**–**	**12**	10	1	–	11
Benefits paid	**(28)**	**(3)**	**(3)**	**(34)**	(26)	(2)	(2)	(30)
Administrative costs	**(1)**	**–**	**–**	**(1)**	(1)	–	–	(1)
Fair value end of year[1]	**1,653**	**140**	**–**	**1,793**	1,467	119	–	1,586
Funded status – plan (deficit) surplus[2]	**$ 331**	**$ 15**	**$ (226)**	**$ 120**	$ 45	$ (19)	$ (243)	$ (217)

[1] *The asset ceiling test had no impact on the asset or obligation position of the Plans.*

[2] *On the Consolidated Statement of Financial Position, the RPP and SRP is classified as retirement benefit assets totalling $346 million, and the other benefit plans are classified as retirement benefit liabilities totalling $226 million.*

ASSET MIX

The objective when managing capital of the plans is to safeguard the ability to continue as a going concern in order to maintain adequate assets to support investment activities of the plans and to ensure adequate assets to fund future benefit payments. For the DB component of the pension plans, investments are made in a diversified portfolio of investments, based on criteria established in the SIPPs which assist in the management of capital and mitigation of risk. Periodically, an Asset-Liability Management (ALM) study is performed to ensure that their investment policies are appropriate in terms of risk and return profiles to ensure proper matching to meet our long-term funding obligation. The results of the ALM study are reviewed by the PIAC and recommendations, if any, are made to the MPC and the HRC. EDC conducted an ALM study in 2021 and intends to implement its recommendations in 2022. At December 31, 2021, the asset mix is within the acceptable range permitted by the SIPP.

The following table outlines the target allocation and asset mix of the plans' defined benefit component:

	Registered Pension Plan			Supplementary Retirement Plan*	
	2021 Target %	**2021 %**	2020 %	**2021 %**	2020 %
Cash	**–**	**–**	–	**45**	50
Debt securities	**30**	**30**	30	**–**	–
Equities	**65**	**66**	66	**55**	50
Alternatives	**5**	**4**	4	**–**	–
Total	**100**	**100**	100	**100**	100

** The target is 100% in equity securities, net of cash held in a refundable tax account as prescribed by Canada Revenue Agency (CRA).*

FAIR VALUE MEASUREMENTS

All financial instruments of the plans recognized at fair value in the Consolidated Statement of Financial Position must be classified into fair value hierarchy levels as shown in the table below, based on the extent to which the inputs used to measure the fair value are observable or unobservable as defined in Note 21 Fair Value of Financial Instruments.

(in millions of Canadian dollars)				**Dec. 31, 2021**				Dec. 31, 2020
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Fixed income	**–**	**490**	**–**	**490**	–	435	–	435
Equities								
Canadian	**–**	**222**	**–**	**222**	–	210	–	210
International	**–**	**255**	**–**	**255**	–	210	–	210
U.S.	**–**	**73**	**–**	**73**	–	63	–	63
Global	**–**	**495**	**–**	**495**	–	448	–	448
Listed infrastructure	**–**	**119**	**–**	**119**	–	99	–	99
Alternatives	**–**	**–**	**71**	**71**	–	–	62	62
Other*	**68**	**–**	**–**	**68**	59	–	–	59
Total	**$ 68**	**$ 1,654**	**$ 71**	**$ 1,793**	$ 59	$ 1,465	$ 62	$ 1,586

** Represents cash and cash held with CRA.*

The pension expenses recognized in the Consolidated Statement of Comprehensive Income, as split in their DB and DC components, were as follows:

(in millions of Canadian dollars)				**2021**				2020
	Registered Pension Plan	**Supplementary Retirement Plan**	**Other benefit plans**	**Total**	Registered Pension Plan	Supplementary Retirement Plan	Other benefit plans	Total
Defined benefit								
Current service costs	**32**	**3**	**8**	**43**	30	2	8	40
Administrative costs	**1**	**–**	**–**	**1**	1	–	–	1
Service costs	**33**	**3**	**8**	**44**	31	2	8	41
Interest cost on benefit obligation	**41**	**4**	**6**	**51**	42	4	7	53
Interest income on plan assets	**(41)**	**(2)**	**–**	**(43)**	(44)	(4)	–	(48)
Net interest on the defined benefit liability (asset)	**–**	**2**	**6**	**8**	(2)	–	7	5
Total defined benefit expense	**33**	**5**	**14**	**52**	29	2	15	46
Defined contribution expense	**11**	**–**	**–**	**11**	12	–	–	12
Total	**$ 44**	**$ 5**	**$ 14**	**$ 63**	$ 41	$ 2	$ 15	$ 58

KEY ASSUMPTIONS

The following table outlines the key assumptions used in measuring the obligations of the defined benefit components of the plans:

Assumptions	**Dec. 31, 2021**			Dec. 31, 2020		
(Weighted average)	**Registered Pension Plan**	**Supplementary Retirement Plan**	**Other benefit plans**	Registered Pension Plan	Supplementary Retirement Plan	Other benefit plans
Defined benefit obligation:						
Discount rate	**3.4%**	**3.4%**	**3.1%**	2.8%	2.8%	2.6%
Inflation	**2.0%**	**2.0%**	**2.0%**	2.0%	2.0%	2.0%
Rate of compensation increase(1)	**3.5%**	**3.5%**	**4.3%**	3.5%	3.5%	4.4%
Benefit plan expense:						
Discount rate on projected defined benefit obligation	**2.8%**	**2.8%**	**2.6%**	3.2%	3.2%	3.2%
Inflation	**2.0%**	**2.0%**	**2.0%**	2.0%	2.0%	2.0%
Rate of compensation increase(1)	**3.5%**	**3.5%**	**4.4%**	3.9%	3.9%	4.4%
Mortality table(2)		**CPM2014 Public table**		**(scale CPM-B)**		
Assumed medical cost trend:						
Initial medical cost trend rate(3)	**–**	**–**	**4.0%**	–	–	4.0%
Medical cost trend rate declines to	**–**	**–**	**n/a**	–	–	n/a
Year that the rate reaches the ultimate trend rate	**–**	**–**	**n/a**	–	–	n/a
Dental care trend	**–**	**–**	**4.0%**	–	–	4.0%

(1) The rate of compensation increase includes a merit and promotional component which varies by age for each individual employee.

(2) Size adjustment factor of 0.75 for both Male and Female applied to Supplementary Retirement Plan mortality table in both years.

(3) Medical cost trend rate remains flat over the years.

Due to the long-term nature of defined benefit plans, the calculation of expenses and obligations depends on various assumptions. These assumptions require significant judgment and have inherent uncertainties, including uncertainties related to the COVID-19 pandemic, that management may not be able to control. The assumptions are determined annually by management, in consultation with our actuaries.

Accounting standards require that the discount rate used to determine the DB obligations be based on market rates for high-quality corporate bonds that match the currency and estimated term of the obligations. Our methodology used to set the discount rate is based on the Canadian Institute of Actuaries' (CIA) preferred methodology. The standards also require that the interest income on plan assets be computed by applying the discount rate used to measure the plan obligation at the beginning of the year.

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics in the form of post-retirement mortality tables. Actuarial adjustments to the tables are applied when recommended by the plan's actuaries.

REMEASUREMENTS RECOGNIZED IN OTHER COMPREHENSIVE INCOME (OCI)

As a result of applying the previously discussed assumptions on defined benefits, actuarial gains or losses arise from the difference between actual and expected experience and are immediately recognized in OCI. These amounts have been transferred out to retained earnings. As such, there is no accumulated OCI in respect of these amounts.

The table below summarizes the remeasurement recognized in OCI during the year:

(in millions of Canadian dollars)				**2021**				2020
	Registered Pension Plan	**Supplementary Retirement Plan**	**Other benefit plans**	**Total**	Registered Pension Plan	Supplementary Retirement Plan	Other benefit plans	Total
Remeasurement on retirement benefit obligations								
Actuarial gain (loss):								
plan experience	**(3)**	**3**	**6**	**6**	6	(4)	12	14
demographic assumptions	**–**	**–**	**–**	**–**	–	(8)	(4)	(12)
financial assumptions	**159**	**15**	**22**	**196**	(97)	(11)	(28)	(136)
	156	**18**	**28**	**202**	(91)	(23)	(20)	(134)
Remeasurement on plan assets excluding interest income								
Return (loss) on plan assets	**132**	**9**	**–**	**141**	54	(1)	–	53
Total	**$ 288**	**$ 27**	**$ 28**	**$ 343**	$ (37)	$ (24)	$ (20)	$ (81)

SENSITIVITY ANALYSIS

The following table outlines the potential impact of changes in certain key assumptions used in measuring the DB obligations. The sensitivity analysis contained in this table is hypothetical and should be used with caution.

(in millions of Canadian dollars)					**Dec. 31, 2021**
		Registered Pension Plan	**Supplementary Retirement Plan**	**Other benefit plans**	**Total**
Sensitivity of Assumptions		**Obligation**	**Obligation**	**Obligation**	**Obligation**
Discount rate					
Impact of:	1% increase ($)	**(217)**	**(20)**	**(39)**	**(276)**
	1% decrease ($)	**286**	**26**	**53**	**365**
Longevity risk sensitivity					
Impact of:	increase of 1 year in life expectancy	**35**	**3**	**7**	**45**
Rate of compensation increase					
Impact of:	1% increase ($)	**20**	**13**	**1**	**34**
	1% decrease ($)	**(21)**	**(8)**	**(1)**	**(30)**
Inflation rate assumption*					
Impact of:	0.25% increase ($)	**54**	**5**	**n/a**	**59**
	0.25% decrease ($)	**(51)**	**(5)**	**n/a**	**(56)**

** Inflation rate assumption for the other benefit plans are already factored into the other sensitivities.*

A one percentage point increase in assumed health care cost trends would have increased the service and interest cost by $5 million and the obligation by $53 million. Whereas a one percentage point decrease would have decreased the service and interest costs by $4 million and the obligation by $40 million.

TOTAL CONTRIBUTIONS

Total employer contributions for pension, other post-employment and other post-retirement benefits were as follows:

(in millions of Canadian dollars)				**2021**				2020
	Registered Pension Plan	**Supplementary Retirement Plan**	**Other benefit plans**	**Total**	Registered Pension Plan	Supplementary Retirement Plan	Other benefit plans	Total
DB								
Regular contributions	**16**	**1**	**3**	**20**	14	1	2	17
Special contributions	**15**	**11**	**–**	**26**	9	6	–	15
Total defined benefit cash payments	**31**	**12**	**3**	**46**	23	7	2	32
DC								
Total defined contribution cash payments	**11**	**–**	**–**	**11**	12	–	–	12
Total cash payments	**$ 42**	**$ 12**	**$ 3**	**$ 57**	$ 35	$ 7	$ 2	$ 44

We expect to contribute $48 million to the Plans in 2022 which includes $30 million to the RPP DB component of the plan, $11 million to the RPP DC component of the plan, $1 million to the SRP DB component of the plan and $6 million for the other benefit plans. Additional contributions to the SRP will be determined when the actuarial valuation is prepared.

FUNDING AND SOLVENCY VALUATION

Our appointed actuaries measure the DB obligations for accounting purposes as at December 31 of each year. We fund the DB component of the pension plans in accordance with actuarially determined amounts required to satisfy employee benefit obligations under current federal pension regulations. The most recent funding valuation for the RPP and the SRP was as at December 31, 2020. The next formal valuations will be conducted by the Plans' actuaries in 2022 and will be as at December 31, 2021.

The financial health of a pension plan is measured by actuarial valuations, which are prepared on both a going-concern and a solvency basis. The EDC DB RPP ratios as at December 31, 2020 were 156.2% (2019 –158.3%) on a going-concern basis and 91.2% (2019 – 97.8%) on a solvency basis. Since EDC's solvency ratio for the RPP is less than 100%, we are required by federal pension legislation to make special monthly solvency contributions. During 2021, we contributed special payments of $15 million into the RPP and $11 million into the SRP. The solvency ratio for the SRP as at December 31, 2020 was 90.4% (2019 – 98.7%).

32. Related Party Transactions

We enter into transactions with other government departments, agencies and Crown corporations in the normal course of business, under terms and conditions similar to those that apply to unrelated parties. The following disclosure is in addition to the related party disclosure provided elsewhere in these financial statements. All material related party transactions are either disclosed below or in the relevant notes. These transactions were measured at their exchange amounts.

FINDEV CANADA DONOR CONTRIBUTIONS

Donor contributions received by EDC's subsidiary FinDev Canada include contributions from Global Affairs Canada (GAC). Contributions received from GAC in 2021 include a $75.9M facility which FinDev Canada will hold, manage, administer, use and invest the funds under the facility, with related financial results reported to GAC and consolidated within the financial statements of the Government of Canada. The portion of the facility allocated for administrative expenses incurred are recorded within our Consolidated Financial Statements as deferred revenue until earned. As discussed in Note 11, deferred revenue of $13 million represents the unrecognized portion of donor contributions from GAC (2020 – $1 million).

CANADA ACCOUNT ADMINISTRATIVE EXPENSE RECOVERY

As described in Note 33, we enter into certain financial and contingent liability transactions on behalf of the Government of Canada known as “Canada Account” transactions. In 2020, we also began administering Canada Account loans related to the CEBA program as part of Canada’s response to the COVID-19 pandemic. We are compensated for expenses and overhead relating to Canada Account activities. In 2021, the administrative expense recovery was $4 million (2020 – $4 million). These amounts are netted against administrative expenses on the Consolidated Statement of Comprehensive Income.

During 2021, we incurred $75 million (2020 - $37 million) of recoverable expenses related to administering the CEBA program.

KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel, defined as those having authority and responsibility for planning, directing and controlling the activities of EDC, include the Board of Directors and the Executive Management team.

The remuneration of key management personnel is determined as follows:

- Chairperson and other independent Directors receive an annual retainer for Board and Committee meetings based on a fee schedule in accordance with Treasury Board Guidelines. Chairs of committees receive a base retainer plus an additional $2,000.
- Executive Management team, except for the President and CEO, remuneration is approved by the Human Resources Committee of the Board of Directors, having regard to the performance of individuals and market trends. For total compensation, EDC targets the median of its comparator group, which includes organizations from the finance, insurance, investment and banking industries as well as Crown corporations and other relevant industries.
- The President and CEO is compensated in accordance with the terms of the Order-in-Council based on recommendations made by the Board of Directors. Base salary for 2020-2021 was within the range of $390,300-$458,100.

Compensation paid or payable to key management personnel during the year, including non-cash benefits subject to income tax, was as follows:

(in millions of Canadian dollars)	**2021**	2020
Salaries and other short-term benefits[1]	**7**	8
Post-employment benefits[2]	**2**	1
Total	**$ 9**	$ 9

[1] *Includes compensation paid to the Chairperson and other independent Directors, Executive Management team salaries and non-monetary compensation.*

[2] *Includes pensions and post-employment life insurance, as applicable.*

33. Canada Account Transactions

Pursuant to the Act, the Minister, with the concurrence of the Minister of Finance, may authorize us to undertake certain financial and contingent liability transactions on behalf of the Government of Canada. These transactions and the legislative authorities that underlie them have come to be known collectively as “Canada Account”. Accounts for these transactions are maintained separately from our accounts and are consolidated annually as at March 31 with the financial statements of the Government of Canada, which are reported upon separately by the Government and audited by the Auditor General of Canada. The assets under the Canada Account, mainly loans receivable and accrued interest and fees, are recorded in accordance with the accounting policies and practices of the Government of Canada and amounted to $62.3 billion at the end of December 2021 (2020 – $49.1 billion). The increase in 2021 is mainly due to loans disbursements in the first half of 2021 related to the Canada Emergency Business Account program (CEBA), which is one of Canada’s responses to the COVID-19 pandemic. New term loan credit facilities to eligible borrowers under CEBA have ended as of June 30, 2021 as set out in the credit agreements with the Financial Institutions.

The Act allows the Canada Account to have outstanding loans and commitments to borrowers and arrangements giving rise to contingent liabilities under contracts of insurance and other agreements up to a maximum of $115 billion. The position against the statutory limit at the end of 2021, determined in accordance with the requirements of the Act, was $65.1 billion (2020 – $70.7 billion).

Ten-Year Review

Statement of Financial Position

as at December 31

(in millions of Canadian dollars)	**2021**	2020	2019	2018	2017
Gross loans receivable	**48,437**	54,772	51,601	54,609	51,199
Accrued interest and fees receivable	**156**	188	242	272	241
Deferred loan revenue and other credits	**(248)**	(238)	(278)	(315)	(313)
Allowance for losses on loans	**(1,760)**	(2,630)	(930)	(820)	(1,363)
Net loans receivable	**46,585**	52,092	50,635	53,746	49,764
Investments	**2,707**	2,032	1,627	1,342	1,124
Cash and marketable securities	**9,289**	10,745	10,930	13,289	8,214
Reinsurers' share of premium and claims liabilities	**110**	150	120	150	103
Property, plant and equipment	**44**	40	43	50	54
Intangible assets	**63**	84	108	110	106
Other assets	**1,817**	2,554	1,109	693	755
Total Assets	**$ 60,615**	$ 67,697	$ 64,572	$ 69,380	$ 60,120
Loans payable	**43,525**	45,020	52,404	55,448	47,114
Other liabilities	**1,572**	2,217	1,755	2,519	2,152
Allowance for losses on loan commitments	**20**	50	10	20	14
Premium and claims liabilities	**670**	820	500	890	608
Loan guarantees	**188**	300	147	158	192
Total Liabilities	**45,975**	48,407	54,816	59,035	50,080
Share capital	**12,300**	12,300	1,333	1,333	1,333
Retained earnings	**2,340**	6,990	8,423	9,012	8,707
Equity	**14,640**	19,290	9,756	10,345	10,040
Total Liabilities and Equity	**$ 60,615**	$ 67,697	$ 64,572	$ 69,380	$ 60,120

Statement of Financial Position

as at December 31

(in millions of Canadian dollars)	2016	2015	2014	2013	2012
Gross loans receivable	55,375	53,326	41,791	36,549	30,336
Accrued interest and fees receivable	236	200	163	154	157
Deferred loan revenue and other credits	(361)	(390)	(368)	(346)	(362)
Allowance for losses on loans	(1,552)	(1,715)	(1,163)	(1,246)	(1,182)
Net loans receivable	53,698	51,421	40,423	35,111	28,949
Investments	1,005	848	689	537	429
Cash and marketable securities	7,389	7,694	6,545	4,066	4,236
Reinsurers' share of premium and claims liabilities	116	141	88	93	90
Property, plant and equipment	55	53	56	59	66
Intangible assets	92	71	56	44	38
Other assets	769	741	1,147	1,606	2,425
Total Assets	$ 63,124	$ 60,969	$ 49,004	$ 41,516	$ 36,233
Loans payable	49,101	46,909	38,038	31,259	25,880
Other liabilities	3,359	3,936	1,935	1,068	676
Allowance for losses on loan commitments	78	113	44	47	58
Premium and claims liabilities	656	688	618	606	583
Loan guarantees	167	158	153	165	161
Total Liabilities	53,361	51,804	40,788	33,145	27,358
Share capital	1,333	1,333	1,333	1,333	1,333
Retained earnings	8,430	7,832	6,883	7,038	7,542
Equity	9,763	9,165	8,216	8,371	8,875
Total Liabilities and Equity	$ 63,124	$ 60,969	$ 49,004	$ 41,516	$ 36,233

Statement of Comprehensive Income

for the year ended December 31

(in millions of Canadian dollars)	**2021**	2020	2019	2018	2017
Financing and investment revenue:					
Loan	**1,462**	1,830	2,295	2,207	1,915
Finance lease	**–**	–	–	–	–
Operating lease	**–**	–	–	–	–
Marketable securities	**82**	165	255	257	93
Investments	**16**	14	7	9	9
Total financing and investment revenue	**1,560**	2,009	2,557	2,473	2,017
Interest expense	**324**	760	1,307	1,219	715
Leasing and financing related expenses	**25**	26	31	33	45
Net Financing and Investment Income	**1,211**	1,223	1,219	1,221	1,257
Loan Guarantee Fees	**97**	55	55	48	43
Insurance premiums and guarantee fees	**285**	265	243	243	239
Reinsurance ceded	**(33)**	(35)	(41)	(39)	(39)
Net Insurance Premiums and Guarantee Fees	**252**	230	202	204	200
Other (Income) Expenses	**(741)**	(195)	110	(98)	34
Administrative Expenses	**619**	556	538	497	431
Income before Provision and Claims-Related Expenses	**1,682**	1,147	828	1,074	1,035
Provision for (Reversal of) Credit Losses	**(554)**	2,083	240	(11)	(119)
Net Claims-Related Expenses (Recovery)	**(51)**	416	126	255	157
Net Income (Loss)	**2,287**	(1,352)	462	830	997
Other comprehensive income (loss)	**343**	(81)	(40)	44	66
Comprehensive Income (Loss)	**$ 2,630**	$ (1,433)	$ 422	$ 874	$ 1,063

Statement of Comprehensive Income

for the year ended December 31

(in millions of Canadian dollars)	2016	2015	2014	2013	2012
Financing and investment revenue:					
Loan	1,720	1,475	1,239	1,174	1,116
Finance lease	1	5	5	6	6
Operating lease	–	–	50	55	17
Marketable securities	73	60	45	32	36
Investments	9	8	6	8	5
Total financing and investment revenue	1,803	1,548	1,345	1,275	1,180
Interest expense	450	183	70	30	108
Leasing and financing related expenses	37	28	48	49	33
Net Financing and Investment Income	1,316	1,337	1,227	1,196	1,039
Loan Guarantee Fees	40	41	36	36	38
Insurance premiums and guarantee fees	229	224	218	215	216
Reinsurance ceded	(37)	(30)	(23)	(22)	(20)
Net Insurance Premiums and Guarantee Fees	192	194	195	193	196
Other (Income) Expenses	76	(200)	(76)	109	16
Administrative Expenses	385	351	327	310	308
Income before Provision and Claims-Related Expenses	1,087	1,421	1,207	1,006	949
Provision for (Reversal of) Credit Losses	(31)	437	(39)	30	(340)
Claims-Related Expenses (Recovery)	46	59	117	159	(38)
Net Income (Loss)	1,072	925	1,129	817	1,327
Other comprehensive income (loss)	26	24	(155)	119	51
Comprehensive Income (Loss)	$ 1,098	$ 949	$ 974	$ 936	$ 1,378

Corporate Account

Financial Arrangements Facilitated

(in millions of Canadian dollars)	**2021**	2020	2019	2018	2017
Financing					
Direct financing	**18,285**	18,143	25,008	27,109	26,756
Guarantees	**3,707**	3,247	2,078	2,053	1,601
	21,992	21,390	27,086	29,162	28,357
FinDev Canada business facilitated	**361**	144	85	39	–
Total	**22,353**	21,534	27,171	29,201	28,357
Insurance					
Credit insurance	**71,030**	58,201	57,569	58,555	55,827
Financial institutions insurance	**6,733**	9,189	6,915	4,259	8,205
International trade guarantee	**10,381**	11,701	8,612	10,204	8,795
Political risk insurance	**865**	1,867	2,407	2,438	2,551
Total	**89,009**	80,958	75,503	75,456	75,378

Financial and Other Data

Financing *(in millions of Canadian dollars)*	**2021**	2020	2019	2018	2017
Value of gross loans receivable	**48,437**	54,772	51,601	54,609	51,199
Value of investments	**2,707**	2,032	1,627	1,342	1,124
Value of undisbursed loans	**10,526**	15,706	17,965	20,778	20,784
Value of undisbursed investments	**884**	770	839	736	785
Value of loan disbursements	**16,196**	25,345	21,692	31,240	27,625
Value of disbursements for investments	**413**	387	311	268	270
Value of liability on loan guarantees	**4,010**	4,016	2,972	2,993	2,473
Undisbursed amounts on loan guarantees	**389**	157	580	281	143
Amounts available for allocation under confirmed LOC	**133**	159	158	121	112
Loan amounts rescheduled	**65**	–	–	–	–
Loan amounts written off	**93**	94	105	119	43
Number of current lines of credit and protocols	**6**	6	7	8	12
Insurance *(in millions of Canadian dollars)*					
Value of liability on insurance and guarantees	**28,579**	28,987	23,690	23,930	21,648
Value of claims paid	**54**	164	465	74	201
Value of claims recovered	**18**	27	18	56	44
Value of claims outstanding at end of year	**946**	971	892	772	791
Value of claims under consideration at end of year	**112**	105	8	319	310
Number of policies issued	**6,984**	7,912	6,744	7,980	6,750
Number of insurance policies and guarantees in force	**8,970**	8,627*	7,574	7,776	7,318

** This amount has been restated to reflect the correct number of insurance policies and guarantees in force.*

Corporate Account

Financial Arrangements Facilitated

(in millions of Canadian dollars)	2016	2015	2014	2013	2012
Financing					
Direct financing	26,587	24,277	20,613	17,497	13,754
Guarantees	1,483	1,133	963	851	864
	28,070	25,410	21,576	18,348	14,618
FinDev Canada business facilitated	–	–	–	–	–
Total	28,070	25,410	21,576	18,348	14,618
Insurance					
Credit insurance	55,724	60,175	56,020	56,224	54,087
Financial institutions insurance	7,421	7,666	11,415	10,630	9,295
International trade guarantee	8,098	8,149	7,216	7,467	6,594
Political risk insurance	2,728	2,805	2,643	2,743	2,855
Total	73,971	78,795	77,294	77,064	72,831

Financial and Other Data

Financing *(in millions of Canadian dollars)*					
Value of gross loans receivable	55,375	53,326	41,791	36,549	30,336
Value of investments	1,005	848	689	537	429
Value of undisbursed loans	19,147	19,928	16,593	14,885	13,391
Value of undisbursed investments	914	903	672	541	417
Value of loan disbursements	22,709	18,800	15,186	14,100	11,887
Value of disbursements for investments	237	209	149	124	121
Value of liability on loan guarantees	2,411	2,086	1,963	1,954	1,907
Undisbursed amounts on loan guarantees	103	101	145	137	197
Amounts available for allocation under confirmed LOC	181	109	122	157	111
Loan amounts rescheduled	24	–	50	–	–
Loan amounts written off	193	42	165	62	408
Number of current lines of credit and protocols	13	16	21	26	37
Insurance *(in millions of Canadian dollars)*					
Value of liability on insurance and guarantees	22,693	24,314	22,155	22,807	21,673
Value of claims paid	110	143	72	61	358
Value of claims recovered	23	15	13	10	22
Value of claims outstanding at end of year	732	806	666	637	627
Value of claims under consideration at end of year	305	307	12	30	11
Number of policies issued	6,490	6,623	7,018	7,836	7,525
Number of insurance policies and guarantees in force	7,302	7,383	7,967	8,553	8,214

** This amount has been restated to reflect the correct number of insurance policies and guarantees in force.*

Canada Account

Financial Arrangements Facilitated

(in millions of Canadian dollars)	**2021**	2020	2019	2018	2017
Financing					
Canada Emergency Business Account	**2,400**	55,022	–	–	–
Direct financing	**–**	17,308[2]	9,370[2]	8,000	–
Subtotal	**2,400**	72,330	9,370	8,000	–
Insurance					
Credit insurance	**–**	–	28	15	36
Total	**2,400**	72,330	9,398	8,015	36

Financial and Other Data

Financing *(in millions of Canadian dollars)*	**2021**	2020	2019	2018	2017
Value of total loans and notes receivable	**62,081**	48,843	7,767	6,593	2,586
Value of undisbursed loans	**3,031**	8,236	1,734	1,210	–
Value of loan disbursements (net of guarantees)	**15,875**	41,438	1,931	5,290	–
Value of liability on loan guarantees	**11**	33	55	76	98
Number of transactions financed	**–**	5	4	1	–
Insurance *(in millions of Canadian dollars)*					
Value of liability on insurance and guarantees	**–**	–	–	–	5
Value of claims outstanding at end of year	**–**	–	–	–	–
Number of policies issued	**–**	–	–	–	–
Number of insurance policies and guarantees in force	**–**	–	–	1	1

(1) *Includes activity pursuant to the Softwood Lumber deposit refund mechanism transactions.*

(2) *Includes renewal activity considered new signings.*

Canada Account

Financial Arrangements Facilitated

(in millions of Canadian dollars)	2016	2015[1]	2014[1]	2013	2012
Financing					
Canada Emergency Business Account	–	–	–	–	–
Direct financing	–	156	25	–	1
Subtotal	–	156	25	–	1
Insurance					
Credit insurance	28	41	28	30	41
Total	28	197	53	30	42

Financial and Other Data

	2016	2015[1]	2014[1]	2013	2012
Financing *(in millions of Canadian dollars)*					
Value of total loans and notes receivable	2,998	3,359	2,924	2,821	3,164
Value of undisbursed loans	–	–	–	–	–
Value of loan disbursements (net of guarantees)	–	156	25	–	–
Value of liability on loan guarantees	121	142	164	186	208
Number of transactions financed	–	2	1	–	–
Insurance *(in millions of Canadian dollars)*					
Value of liability on insurance and guarantees	3	7	6	9	9
Value of claims outstanding at end of year	–	–	–	–	–
Number of policies issued	–	–	–	–	–
Number of insurance policies and guarantees in force	1	1	1	1	1

(1) *Includes activity pursuant to the Softwood Lumber deposit refund mechanism transactions.*

(2) *Includes renewal activity considered new signings.*