

# DOING BUSINESS WHERE BUSINESS GETS DONE



QUARTERLY FINANCIAL REPORT  
SEPTEMBER 30, 2011  
UNAUDITED



# TABLE OF CONTENTS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview .....	1
Summary of Financial Results .....	2
Third Quarter Highlights .....	4
Financial Results – Year to Date	
Prior Year Comparison.....	5
Corporate Plan Comparison .....	6
Non-GAAP Measures .....	8
Statement of Management Responsibility .....	9

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Financial Position.....	10
Condensed Consolidated Statement of Comprehensive Income.....	11
Condensed Consolidated Statement of Changes in Equity .....	12
Condensed Consolidated Statement of Cash Flows.....	13
Notes to the Condensed Consolidated Financial Statements .....	14
Note 1. Basis of Presentation.....	14
Note 2. Summary of Significant Accounting Policies .....	14
Note 3. Loans Receivable .....	24
Note 4. Individually Impaired Loans .....	25
Note 5. Allowance for Losses on Loans, Loan Commitments and Guarantees.....	26
Note 6. Recoverable Insurance Claims.....	27
Note 7. Allowance for Claims on Insurance.....	27
Note 8. Contingent Liabilities.....	27
Note 9. Interest Expense .....	28
Note 10. Net Insurance Premiums and Guarantee Fees.....	28
Note 11. Other Income .....	29
Note 12. Provision for (Reversal of) Credit Losses.....	30
Note 13. Claims-Related Expenses.....	30
Note 14. Administrative Expenses.....	31
Note 15. Share Capital.....	31
Note 16. Capital Management .....	31
Note 17. Financial Instruments Risk.....	32
Note 18. Related Party Transactions.....	33
Note 19. Transition to International Financial Reporting Standards (IFRS) .....	34

### 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.

## OVERVIEW

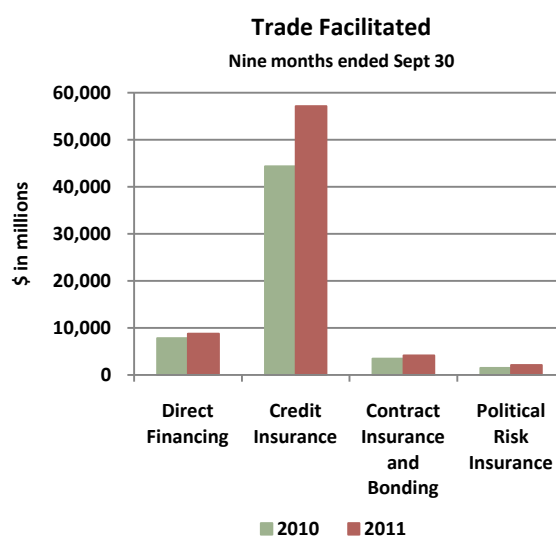
EDC, Canada's export credit agency, offers innovative commercial solutions to help Canadian exporters and investors expand their international business. EDC is a Crown corporation, wholly owned by the Government of Canada and accountable to Parliament through the Minister of International Trade. We provide insurance, financing, bonding products, small business solutions as well as online credit risk management tools to Canadian exporters and investors. Each year, more than 8,200 Canadian companies and their global customers in up to 200 markets worldwide use our knowledge and partnerships. EDC is financially self-sustaining and does not receive parliamentary appropriations. We generate revenue primarily by collecting interest on our loans and premiums on our insurance products.

In 2009 the Government of Canada temporarily broadened EDC's mandate and scope of activity for two years because of the severe and ongoing credit crunch affecting a large number of Canadian businesses. In the first quarter of 2011, the Government extended EDC's domestic powers until March 12, 2012. The expanded mandate enables us to provide domestic financing and insurance services, in partnership with private sector financial institutions, credit insurance and surety companies, and with Business Development Bank of Canada (BDC).

Our third quarter income before provisions and claims-related expenses was in line with the second quarter of 2011; however, there was a significant variation in net income between the two quarters. Net income was \$283 million for the third quarter, compared to a net loss of \$28 million in the previous quarter. A decline in collateral values for loans in our secured aerospace portfolio and the identification of a claim within our political risk program in the second quarter were the key factors contributing to the variance between quarters. Our year to date net income for 2011 was \$589 million, down from just over a billion for the same period in 2010 as a result of provision requirements and claims-related expenses.

### Facilitating Integrative Trade

	Nine months ended	
	Sept 2011	Sept 2010
Financing trade facilitated (\$M)	8,813	7,836
Insurance trade facilitated (\$M)	63,435	49,429
Trade facilitated in emerging markets (\$M)	22,275	15,682



The economic environment for the first nine months of 2011 has been laden with uncertainties due to natural disasters, unrest in the Middle East and concerns over Eurozone crises. In spite of this challenging environment Canadian exporters were able to find new markets and expand their business. Demand for EDC's financing solutions grew by 12% as trade facilitated by this program totalled \$8.8 billion. Under our insurance program, we supported \$63.4 billion in trade in 2011, an increase of 28% over the first nine months of 2010. The level of trade facilitated in our credit insurance program has grown as a result of increased commodity prices as well as due to organic growth within our customers' business. Canadian companies continue to actively seek new markets in countries other than the U.S. This market diversification is a major contributor to the 42% growth in trade facilitated by EDC in emerging markets. This growth is most evident in our insurance program as the uncertainty and risk associated with these emerging markets results in higher demand for insurance.

## SUMMARY OF FINANCIAL RESULTS

### Financial Performance

<i>(in millions of Canadian dollars)</i>	For the three months ended			For the nine months ended	
	Sept 2011	Jun 2011	Sept 2010	Sept 2011	Sept 2010
Net financing and investment income	248	243	241	720	664
Net insurance premiums and guarantee fees*	66	71	61	200	177
Other income	18	34	24	78	57
Administrative expenses	67	70	64	202	190
Provision for (reversal of) credit losses	(26)	116	(8)	(26)	(303)
Claims-related expenses	8	190	(32)	233	(8)
Comprehensive income (loss)	<b>\$283</b>	<b>\$(28)</b>	<b>\$302</b>	<b>\$589</b>	<b>\$1,019</b>

\* Includes loan guarantee fees

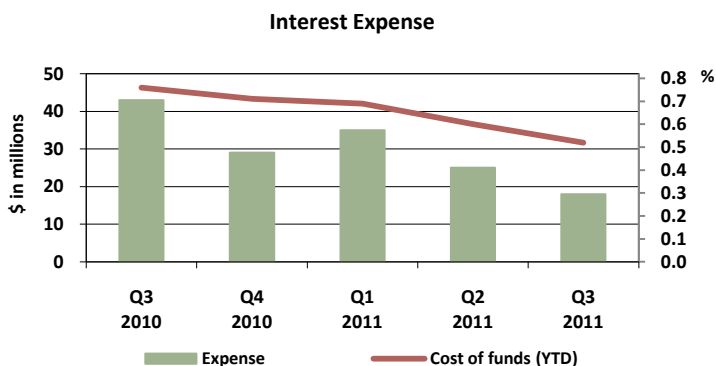
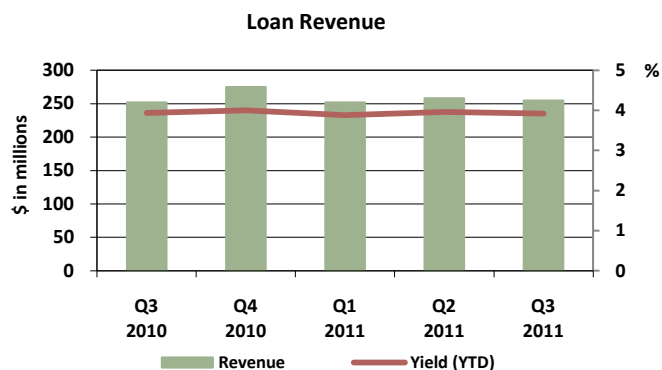
Net income for the third quarter was \$283 million bringing year to date income to \$589 million.

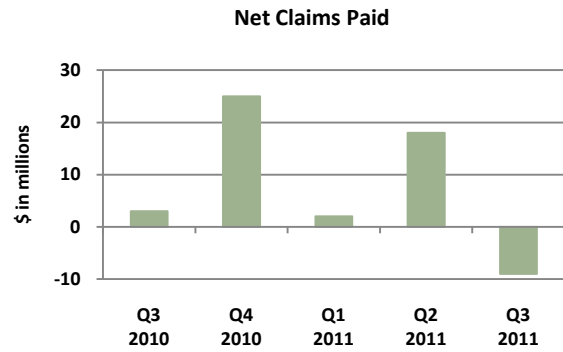
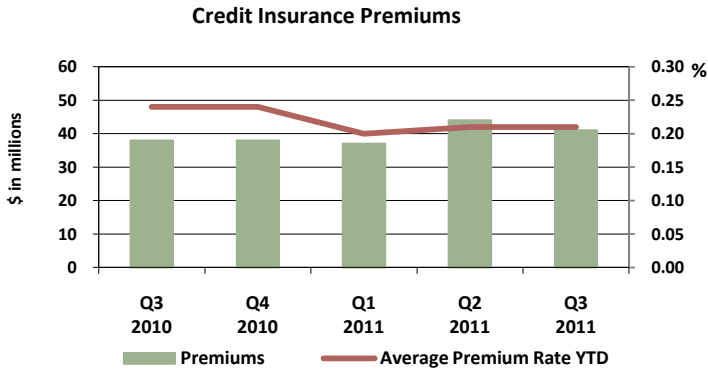
Changes in provisions for credit losses and claims-related expenses were the key factors behind the variances in EDC's net income between reporting periods.

The provision for credit losses has fluctuated greatly between quarters as well as when comparing year to date results between 2010 and 2011. The major factors contributing to these fluctuations were:

- the impact of changes in the portfolio composition as the release of allowance as a result of loan repayments exceeds the additional allowance required for disbursements and new commitments,
- updates to the independent variables used in the allowance calculation, and
- credit migration

The identification of a potential claim in our political risk insurance program in the second quarter of 2011 led to an actuarial increase in the allowance for claims. As a result, claims-related expenses was higher in the second quarter when compared to the third quarter and also higher for the first nine months of 2011 when compared to the same period of 2010.





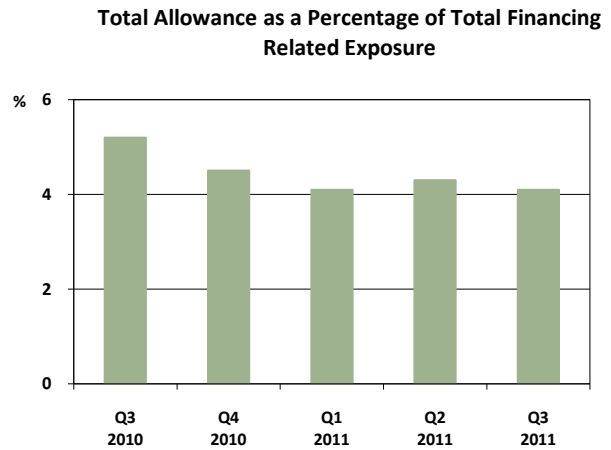
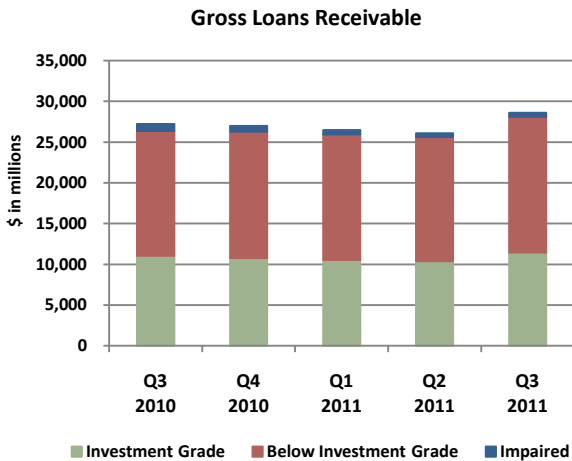
**Financial Position**

as at

(in millions of Canadian dollars)

	Sept 2011	Jun 2011	Dec 2010	Sept 2010
Total Assets	33,593	30,948	31,882	31,909
Total Liabilities	25,393	23,031	23,921	24,404
Shareholder's Equity	8,200	7,917	7,961	7,505
Gross Loans Receivable	28,600	26,087	26,997	27,244
Total Allowances	2,515	2,390	2,299	2,767

The weakening of the Canadian dollar relative to the U.S. dollar in the third quarter of 2011 resulted in an increase in our total assets. Our gross loans receivable, which are primarily denominated in U.S. dollars, increased by 10% from the end of the second quarter.



## Risk Management

Our business activities expose us to a wide variety of risks including credit, market, operational, organizational, and business risks. Our ability to manage these risks, a key competency within the organization, is supported by a strong risk culture and an effective risk management approach guided by our Enterprise Risk Management (ERM) Framework. We manage our risks by seeking to ensure that business activities and transactions provide an appropriate balance of return for the risks assumed and remain within our risk appetite. Refer to Note 17 of the accompanying financial statements for details on financial instruments risks.

We continue to monitor ongoing events in the global financial risk environment and their potential impact on our positions. EDC remains concerned about a potential market disruption that could result from the uncertainty related to the debt positions of Greece and other European sovereigns. As a result, we have increased liquidity by increasing the proportion of our investment portfolio held in U.S. and Canadian Treasury Bills. The continuing uncertainty about Europe has started to have an impact on financial markets. In the quarter we began to observe some areas of retrenchment by European banks and some borrowers choosing to bolster their liquidity by increasing the size of their financing facilities. This situation combined with the lingering challenging economic conditions in the U.S. may increase demand for EDC's financing with minimal impact on actual disbursements as firms want to lock up their available credit lines in case times get any worse.

## THIRD QUARTER HIGHLIGHTS

**Net income** was \$283 million for the third quarter of 2011, compared to net loss of \$28 million for the previous quarter. A reversal of provisions for credit losses and lower claims-related expenses contributed to the \$311 million increase in income. Third quarter income before provisions and claims-related expenses was \$265 million, similar to the \$278 million in the previous quarter.

<i>(in millions of Canadian dollars)</i>	<u>Three months ended</u>	
	<b>Sept 2011</b>	Jun 2011
Income before provisions and claims-related expenses	<b>265</b>	278
(Provision)/reversal and claims-related expenses	<b>18</b>	(306)
<b>Net income (loss)</b>	<b>\$283</b>	\$(28)

There was a **provision reversal** of \$26 million for the third quarter, mainly due to the impact of loan repayments exceeding the additional allowance required for disbursements and new commitments. In addition, the allowance calculation was adjusted in the third quarter to reflect a shortening of the terms to maturity in our loan portfolio. A shorter term to maturity means a lower probability of default and therefore a lower allowance. The provision reversals were partially offset by negative credit migration. In comparison, we reported a provision charge of \$116 million for the second quarter, mainly due to a decline in the collateral values in our secured aerospace portfolio which impacted the allowance calculation.

**Claims-related expenses** for the third quarter were \$8 million, compared to the \$190 million reported in the second quarter. We recovered more claims than paid during the quarter and experienced an actuarial decrease in the net allowance for claims due to an update of assumptions. However, revised estimates for recoverable insurance claims resulted in a \$31 million charge to claims-related expenses. The expense in the second quarter included the impact on the allowance of the recognition of a potential claim within the political risk insurance program. During the third quarter this claim was submitted and is now under consideration, with no impact on the allowance in the third quarter.

## FINANCIAL RESULTS – YEAR TO DATE

### *Prior Year Comparison*

Our **net income** was \$589 million for the first three quarters of 2011 compared to the \$1,019 million reported for the same period in 2010. The reduction of \$430 million is primarily due to a change in provision requirements in both our loans and insurance portfolios.

There was a reversal of **provision for credit losses** of \$26 million for the first nine months of 2011, compared to a provision reversal of \$303 million for the same period in 2010. In both years, the release of allowance as a result of loan repayments exceeded the additional allowance required for disbursements and new commitments. However, the impact in 2010 was more significant, and in addition, updates made to the independent variables used in the calculation of the allowance resulted in a provision reversal in 2010 versus a provision charge in 2011. Refer to Note 12 for further details.

**Claims-related expenses** for the first nine months of 2011 were \$241 million higher when compared to the same period in 2010. This increase was mainly due to the impact on the allowance of a claim under consideration in the political risk insurance program.

Other items of note:

- **Loan revenue** increased by \$36 million mainly the result of higher loan interest and fee revenue. An increase in the average balance of loans receivable, as well as increased yields on our floating rate portfolio led to the higher loan interest. Loan fee revenue was higher in 2011 because a refinement made in 2010 to our methodology for amortizing fees resulted in reduced loans fees for the first nine months of 2010.
- **Interest expense** decreased by \$40 million primarily due to the impact of currency swaps used to reduce the foreign currency risk of our capital. Refer to Note 9 for further details.
- The **net finance margin** was 3.23% for the first nine months of 2011, 28 basis points higher than the same period in 2010, due to the changes in loan revenue and interest expense as discussed above.
- **Net insurance premiums and guarantee fees** increased by \$21 million mainly due to increased volume in our credit insurance program. In addition, within the contract insurance and bonding program (CIB), the mix in business is gravitating towards products used by our banking partners which typically carry a higher premium rate when compared to the products used by our surety partners.
- The **average credit insurance premium rate** declined from 0.24% for the first nine months of 2010 to 0.21% for the same period in 2011 mainly due to increased business in shorter tenure, lower premium markets, as well as increased volume in lower rate accounts.
- **Property, plant and equipment** increased by \$34 million or 103% from December 31, 2010 primarily due to the capital expenditures associated with our new head office. We moved to a new head office in 2011 and the capital expenditures include construction of the interior space, furniture, technology and consulting costs. The new building lease will be recorded as a finance lease as of November 1, 2011. The obligation and asset under the finance lease will be recorded on the statement of financial position.

*Corporate Plan Comparison***Condensed Consolidated Statement of Comprehensive Income Summary**

<i>(in millions of Canadian dollars)</i>	<u>Nine months ended</u>		<u>Year ended</u>
	<b>Sept 2011</b> <b>Actual Results</b>	Sept 2011 Corporate Plan	Dec 2011 Corporate Plan
Net financing and investment income	<b>720</b>	694	941
Net insurance premiums and guarantee fees*	<b>200</b>	180	248
Other income (expenses)	<b>78</b>	(9)	(12)
Administrative expenses	<b>202</b>	211	300
Provision for (reversal of) credit losses	<b>(26)</b>	98	130
Claims-related expenses	<b>233</b>	102	136
Net income	<b>589</b>	454	611
Other comprehensive income	-	-	-
Comprehensive income	<b>\$589</b>	\$454	\$611

\*Includes loan guarantee fees

**Net income** for the first nine months of 2011 exceeded the Corporate Plan projection by \$135 million. Key variances were as follows:

A reversal of **provision for credit losses** of \$26 million, compared to a provision charge of \$98 million in the Corporate Plan. The Corporate Plan anticipated both a higher level of net disbursements than occurred and also a greater provisioning impact on those net disbursements. Net disbursements were lower in 2011 than contemplated in the Plan, in part due to increased demand for revolving facilities which were not drawn. In the current environment our customers are looking for credit capacity which can be achieved through the use of these facilities.

**Other income** totalled \$78 million (refer to Note 11 for further details) compared to an expense of \$9 million in the Corporate Plan. The variance is largely the result of changes in market conditions not contemplated in the Plan which impacts the fair values of our financial instruments.

**Claims-related expenses** exceeded the Corporate Plan amount by \$131 million due to an actuarial increase in the net allowance for claims as a result of a submitted claim in the political risk insurance program.

**Condensed Consolidated Statement of Financial Position Summary***as at*

<i>(in millions of Canadian dollars)</i>	Sept 2011 Actual Results	Sept 2011 Corporate Plan	Dec 2011 Corporate Plan
Cash and marketable securities	4,161	3,369	3,369
Derivative instruments	1,566	1,888	1,888
Loans receivable	28,217	29,255	29,687
Allowance for losses on loans	(1,585)	(1,533)	(1,555)
Other financing assets	572	659	674
Other assets	662	478	487
<b>Total Assets</b>	<b>\$33,593</b>	<b>\$34,116</b>	<b>\$34,550</b>
Loans payable	23,561	24,288	24,625
Derivative instruments	377	242	242
Allowance for losses on loan commitments	48	86	82
Allowance for claims on insurance	804	662	662
Other liabilities	603	640	584
Equity	8,200	8,198	8,355
<b>Total Liabilities and Equity</b>	<b>\$33,593</b>	<b>\$34,116</b>	<b>\$34,550</b>

**Loans receivable** were \$1 billion lower than projected in the Plan mainly due to lower net disbursements in both 2010 and 2011 than contemplated in the Plan. Although the year-to-date financing volume is higher than the Corporate Plan, disbursements are lower than anticipated as noted earlier.

**Loans payable** were \$727 million lower than the Corporate Plan amount of \$24.3 billion mainly due to reduced borrowing requirements; a result of the lower net loan disbursements.

**NON-GAAP MEASURES*****Claims Ratio – Credit Insurance Program***

The claims ratio expresses net claims incurred as a percentage of net written premium. Net claims incurred includes claims paid net of estimated recoveries and changes in actuarial liabilities.

Reinsurance assumed and ceded reflect various partnerships we have with private insurers and reinsurers in offering and managing insurance capacity. For the first three quarters of 2011, our reinsurance partnerships as expressed in premium have increased by an aggregate 47% over the same period in 2010.

<i>(in thousands of Canadian dollars)</i>	<u>Nine months ended</u>	
	<b>Sept 2011</b>	Sept 2010
Direct premiums	<b>100,804</b>	88,372
Reinsurance assumed	<b>3,192</b>	2,017
Reinsurance ceded	<b>(5,038)</b>	(3,573)
Net written premium	<b>\$98,958</b>	\$86,816
Net claims incurred	<b>\$(6,079)</b>	\$(8,531)
Claims ratio %	<b>(6.14)%</b>	(9.83)%

*Excludes the documentary credit insurance program*

*Unearned premiums at the beginning and end of the year and claims incurred on reinsurance assumed/ceded were nil. Net premiums earned is therefore equivalent to net premiums written and direct claims incurred is equivalent to net claims incurred.*

## STATEMENT OF MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these condensed consolidated quarterly financial statements in accordance with the Treasury Board of Canada *Standard on Quarterly Financial Reports for Crown Corporations* and for such internal controls as management determines is necessary to enable the preparation of condensed consolidated quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the condensed consolidated quarterly financial statements.

These condensed consolidated quarterly financial statements have not been audited or reviewed by an external auditor.

Based on our knowledge, these unaudited condensed consolidated quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at September 30, 2011 and for the periods presented in the condensed consolidated quarterly financial statements.



Stephen Poloz,  
President and Chief Executive Officer



Ken Kember,  
Senior Vice-President and Chief Financial Officer

Ottawa, Canada  
November 23, 2011

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

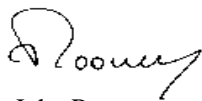
**Export Development Canada**  
**Condensed Consolidated Financial Statements**

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
*(in millions of Canadian dollars)*

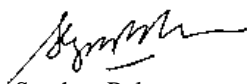
	as at				
	Sept 2011	Jun 2011	Dec 2010	Sept 2010	Jan 1 2010
<b>Assets</b>					
Cash	66	204	124	43	52
Marketable securities:					
At fair value through profit or loss	4,017	3,456	3,660	3,569	5,335
At amortized cost	78	73	19	19	20
Derivative instruments	1,566	1,899	2,010	1,971	1,909
Loans receivable (Notes 3 and 4)	28,217	25,704	26,611	26,878	26,477
Allowance for losses on loans (Note 5)	(1,585)	(1,494)	(1,561)	(1,727)	(1,934)
Equity financing at fair value through profit or loss	389	352	317	282	198
Equipment available for lease	80	101	143	261	326
Net investment in finance leases	98	92	99	105	114
Investment in joint ventures	5	5	47	47	25
Recoverable insurance claims (Note 6)	49	76	94	97	93
Reinsurers' share of allowance for claims (Note 7)	142	114	109	143	159
Other assets	365	270	135	163	116
Property, plant and equipment	67	56	33	20	17
Intangible assets	39	40	42	38	41
<b>Total Assets</b>	<b>\$33,593</b>	<b>\$30,948</b>	<b>\$31,882</b>	<b>\$31,909</b>	<b>\$32,948</b>
<b>Liabilities and Equity</b>					
Accounts payable and other credits	236	411	259	288	251
Loans payable:					
Designated at fair value through profit or loss	21,411	19,305	20,465	20,402	22,139
At amortized cost	2,150	1,957	2,019	2,109	2,294
Derivative instruments	377	201	200	302	222
Allowance for losses on loan commitments (Note 5)	48	44	93	326	453
Allowance for claims on insurance (Note 7)	804	752	569	631	720
Deferred insurance premiums	86	91	71	57	73
Loan guarantees	281	270	245	289	310
	<b>25,393</b>	<b>23,031</b>	<b>23,921</b>	<b>24,404</b>	<b>26,462</b>
<i>Financing commitments (Note 3) and contingent liabilities (Note 8)</i>					
<b>Equity</b>					
Share capital (Note 15)	1,333	1,333	1,333	1,333	1,333
Retained earnings	6,867	6,584	6,628	6,172	5,153
	<b>8,200</b>	<b>7,917</b>	<b>7,961</b>	<b>7,505</b>	<b>6,486</b>
<b>Total Liabilities and Equity</b>	<b>\$33,593</b>	<b>\$30,948</b>	<b>\$31,882</b>	<b>\$31,909</b>	<b>\$32,948</b>

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

These financial statements were approved for issuance by the Board of Directors on November 23, 2011



John Rooney  
Director



Stephen Poloz  
Director

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(in millions of Canadian dollars)

	For the three months ended			For the nine months ended	
	Sept 2011	Jun 2011	Sept 2010	Sept 2011	Sept 2010
Financing and investment revenue:					
Loan	255	258	252	765	729
Finance lease	2	1	2	5	6
Operating lease	4	6	6	16	24
Debt relief	-	2	22	2	24
Investment	11	12	12	35	35
<b>Total financing and investment revenue</b>	<b>272</b>	<b>279</b>	<b>294</b>	<b>823</b>	<b>818</b>
Interest expense (Note 9)	18	25	43	78	118
Leasing and financing related expenses	6	11	10	25	36
<b>Net Financing and Investment Income</b>	<b>248</b>	<b>243</b>	<b>241</b>	<b>720</b>	<b>664</b>
<b>Loan Guarantee Fees</b>	<b>8</b>	<b>8</b>	<b>7</b>	<b>24</b>	<b>22</b>
Insurance premiums and guarantee fees	59	65	54	181	156
Reinsurance assumed	3	2	3	9	9
Reinsurance ceded	(4)	(4)	(3)	(14)	(10)
<b>Net Insurance Premiums and Guarantee Fees (Note 10)</b>	<b>58</b>	<b>63</b>	<b>54</b>	<b>176</b>	<b>155</b>
<b>Other Income (Note 11)</b>	<b>18</b>	<b>34</b>	<b>24</b>	<b>78</b>	<b>57</b>
<b>Administrative Expenses (Note 14)</b>	<b>67</b>	<b>70</b>	<b>64</b>	<b>202</b>	<b>190</b>
<b>Income before Provision and Claims-Related Expenses</b>	<b>265</b>	<b>278</b>	<b>262</b>	<b>796</b>	<b>708</b>
<b>Provision for (Reversal of) Credit Losses (Note 12)</b>	<b>(26)</b>	<b>116</b>	<b>(8)</b>	<b>(26)</b>	<b>(303)</b>
<b>Claims-Related Expenses (Note 13)</b>	<b>8</b>	<b>190</b>	<b>(32)</b>	<b>233</b>	<b>(8)</b>
<b>Net Income (Loss)</b>	<b>283</b>	<b>(28)</b>	<b>302</b>	<b>589</b>	<b>1,019</b>
Other comprehensive income	-	-	-	-	-
<b>Comprehensive Income (Loss)</b>	<b>\$283</b>	<b>\$(28)</b>	<b>\$302</b>	<b>\$589</b>	<b>\$1,019</b>

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

*(in millions of Canadian dollars)*

	For the three months ended			For the nine months ended	
	Sept 2011	Jun 2011	Sept 2010	Sept 2011	Sept 2010
<b>Share Capital (Note 15)</b>	<b>1,333</b>	1,333	1,333	<b>1,333</b>	1,333
<b>Retained Earnings</b>					
Balance beginning of period	<b>6,584</b>	6,612	5,870	<b>6,628</b>	5,153
Comprehensive income (loss)	<b>283</b>	(28)	302	<b>589</b>	1,019
Dividend paid	-	-	-	<b>(350)</b>	-
Balance end of period	<b>6,867</b>	6,584	6,172	<b>6,867</b>	6,172
<b>Total Equity at End of Period</b>	<b>\$8,200</b>	\$7,917	\$7,505	<b>\$8,200</b>	\$7,505

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

(in millions of Canadian dollars)

	For the three months ended			For the nine months ended	
	Sept 2011	Jun 2011	Sept 2010	Sept 2011	Sept 2010
<b>Cash Flows from (used in) Operating Activities</b>					
Comprehensive income (loss)	283	(28)	302	589	1,019
Adjustments to determine net cash from (used in) operating activities					
Provision for (reversal of) credit losses	(26)	116	(8)	(26)	(303)
Actuarial change in the allowance for claims on insurance	(15)	163	(38)	174	(68)
Depreciation and amortization	10	13	12	36	37
Changes in operating assets and liabilities					
Change in accrued interest and fees receivable	(9)	5	(40)	(11)	(37)
Change in fair value of marketable securities	(50)	(24)	(41)	(71)	(104)
Change in fair value of loans payable	211	82	108	269	77
Change in derivative instruments receivable	175	(38)	(83)	40	(293)
Change in derivative instruments payable	(532)	41	245	(263)	402
Other	(211)	69	89	(173)	120
<b>Net cash from (used in) operating activities</b>	<b>(164)</b>	<b>399</b>	<b>546</b>	<b>564</b>	<b>850</b>
<b>Cash Flows from (used in) Investing Activities</b>					
Loan disbursements	(2,234)	(1,870)	(2,671)	(6,336)	(6,546)
Loan repayments	1,665	2,164	1,898	6,019	5,639
Equity financing disbursements	(33)	(23)	(18)	(87)	(79)
Equity financing receipts	2	17	5	26	6
Finance lease repayments	3	2	3	7	7
Purchases of marketable securities at fair value through profit or loss	(10,144)	(10,549)	(7,855)	(30,116)	(33,482)
Sales/maturities of marketable securities at fair value through profit or loss	9,916	10,454	7,639	30,007	35,298
Purchases of marketable securities at amortized cost	(223)	(219)	(20)	(629)	(31)
Sales/maturities of marketable securities at amortized cost	222	219	19	573	31
Distribution from investment in joint ventures	-	-	-	54	-
<b>Net cash from (used in) investing activities</b>	<b>(826)</b>	<b>195</b>	<b>(1,000)</b>	<b>(482)</b>	<b>843</b>
<b>Cash Flows from (used in) Financing Activities</b>					
Issue of long-term loans payable - designated at fair value through profit or loss	324	1,349	1,163	3,675	3,104
Repayment of long-term loans payable - designated at fair value through profit or loss	(1,153)	(1,652)	(428)	(4,253)	(4,880)
Repayment of long-term payable at amortized cost	-	-	(1)	-	(164)
Issue of short-term loans payable - designated at fair value through profit or loss	8,001	4,774	3,644	16,368	8,598
Repayment of short-term loans payable - designated at fair value through profit or loss	(6,510)	(5,315)	(3,796)	(16,007)	(8,442)
Change in derivative instruments receivable	160	304	(137)	405	198
Change in derivative instruments payable	27	(4)	(42)	21	(112)
Dividend paid	-	-	-	(350)	-
<b>Net cash from (used in) financing activities</b>	<b>849</b>	<b>(544)</b>	<b>403</b>	<b>(141)</b>	<b>(1,698)</b>
Effect of exchange rate changes on cash	3	-	1	1	(4)
<b>Net increase (decrease) in cash</b>	<b>(138)</b>	<b>50</b>	<b>(50)</b>	<b>(58)</b>	<b>(9)</b>
<b>Cash</b>					
Beginning of period	204	154	93	124	52
End of period	\$66	\$204	\$43	\$66	\$43
<b>Operating Cash Flows from Interest</b>					
Cash paid for interest	\$8	\$37	\$15	\$57	\$101
Cash received for interest	\$236	\$286	\$285	\$781	\$898

## Notes to the Condensed Consolidated Financial Statements

### 1. Basis of Presentation

Our condensed consolidated financial statements comply with the *Standard on Quarterly Financial Reports for Crown Corporations* issued by the Treasury Board of Canada.

Effective January 1, 2011, the Canadian Institute of Chartered Accountants (CICA) adopted International Financial Reporting Standards (IFRS) as Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises. These condensed interim financial statements reflect our adoption of IFRS, including comparative figures which have been restated to conform to these new standards. The impact to EDC of our transition to IFRS is outlined in Note 19.

Our financial statements for the previous year were prepared in accordance with Canadian GAAP Part V (“previous Canadian GAAP”) and except as outlined in Note 19, these interim financial statements follow the same accounting policies and methods of computation as our audited consolidated financial statements for the year ended December 31, 2010. Accounting standards require additional disclosures in the annual financial statements and, as a result, these condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010 and the accompanying notes as set out on pages 85-131 of our 2010 Annual Report. Our first complete set of financial statement notes in compliance with IFRS will be included in our annual financial statements as at December 31, 2011.

The significant accounting policies used in the preparation of these condensed consolidated financial statements are summarized below and conform in all material respects to IFRS. These interim financial statements were not subject to review or audit, therefore amounts may change at the end of the year as a result of our annual audit.

### 2. Summary of Significant Accounting Policies

#### Basis of Consolidation

Our condensed consolidated financial statements include the assets, liabilities, results of operations and cash flows of our wholly-owned subsidiary and those special purpose entities consolidated under *Standing Interpretations Committee (SIC) 12 Consolidation – Special Purpose Entities*. Intercompany transactions and balances have been eliminated. We report our interests in jointly controlled entities using the equity method.

#### Use of Estimates and Assumptions

To prepare our financial statements in accordance with IFRS, it is necessary for management to make assumptions and estimates based on information available as at the date of the financial statements. Areas where management has made significant estimates and assumptions include the allowance for losses on loans, loan commitments and guarantees (Note 5), review for impairment of equipment available for lease and estimate of its useful life, the estimate for recoverable portion of claims paid (Note 6), the allowance for claims on insurance (Note 7), financial instruments measured at fair value, the determination of the primary beneficiary of special purpose entities, and employee future benefits.

Management determines the allowances using various assumptions, based on its assessment of the impact of recent events and changes in economic conditions and trends. These assumptions include probability of default, loss severity in the event of default and various formulas based on credit quality of counterparties.

The allowance estimates are reviewed periodically during the course of the year as required and in detail as at the date of the financial statements. Actual losses on loans and liabilities for contingencies incurred may vary significantly from management's estimates. The uncertainty in the estimation process arises, in part, from the use of historical data to identify and quantify credit deterioration. While historical data may be the most reliable basis available to calculate these amounts, economic events may occur in the near term that render previous assumptions invalid and cause a material change to management's estimates.

The fair value of our financial instruments is determined, where available, using quoted prices in active markets for identical assets or liabilities. Where these are not available, we use various valuation techniques. These techniques involve the use of market based assumptions and other estimates to determine an instrument's fair value. The valuation processes use market assumptions available at a point in time; however, the amounts paid or received on an actual transaction may differ significantly from these estimates, the impact of which would be recorded in future periods.

### Marketable Securities

We hold marketable securities for liquidity purposes. The size and nature of our marketable securities portfolio is governed by Board approved policies. Our marketable securities are held with creditworthy counterparties that must have a minimum credit rating from an external credit rating agency of A for transactions of less than three years, and a minimum external credit rating of AA- for transactions greater than three years.

Marketable securities held directly by EDC are recorded at fair value through profit or loss to reflect our business model for managing these instruments. We measure performance for this portfolio against appropriate benchmarks. Purchases and sales of these investments are recorded on the trade date and the transaction costs are expensed as incurred. Interest revenue is recorded in investment revenue. Realized and unrealized gains and losses on these securities are included in other income (expenses).

Marketable securities held by our subsidiary are carried at amortized cost, as the business model for managing these instruments is to collect contractual cash flows which represent the payment of principal and interest. Upon initial recognition the securities are recorded at their fair value plus any transaction costs. Subsequently they are carried at amortized cost using the effective interest method, less any impairment losses. Interest revenue is recorded in investment revenue.

### 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 solely payments of principal and interest. They are derecognized when the rights to receive cash flows have expired or we have transferred substantially all the risks and rewards of ownership.

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. 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.

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 and gains on the sale of impaired loans are included in other income (expenses). Losses on sales of impaired loans are reported in the provision for 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 banks and financial institutions providing loans to 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 premium received. Subsequent to initial recognition, our liability is measured at the higher of the unamortized premiums and the allowance calculated that estimates the loss that will be incurred as a result of satisfying our obligation under that guarantee.

Any increase in liability relating to loan guarantees is recorded in the statement of comprehensive income in the provision for credit losses. Guarantee fees received up-front are recognized in the statement of comprehensive income on a straight-line basis over the life of the guarantee. Guarantee fees that are received in arrears are recognized in the statement of comprehensive income on an accrual basis. Guarantee fee revenue is recorded in loan guarantee fees on the statement of comprehensive income.

### **Loan Revenue**

Loan revenue is recognized in financing and investment revenue in the statement of comprehensive income using the effective interest method.

### **Impairment of Financial Instruments**

#### ***Loans Receivable***

Loans that have been individually assessed to be impaired meet one or more of the following criteria which represent objective evidence of impairment:

- there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of the timely collection of the full amount of principal and interest; or
- for commercial loans, when there are payment overdues of 90 days or more, unless the loan is fully secured or collection efforts are reasonably expected to result in repayment of debt.

If there is objective evidence that an impairment loss has occurred on an individual loan, the principal portion of the carrying amount of the loan is reduced through the use of an individual allowance and any accrued unpaid contractual interest and other receivables that form part of the carrying value of the loan are reduced to zero through income.

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.

When a loan is uncollectible, it is written off against the individual allowance. Such loans are written off when all collection methods 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. Restructured loans containing concessions that have been returned to performing status have their carrying value adjusted to reflect the original yield of the loan or the weighted average yield in the case of loan consolidations.

#### ***Individually Impaired Sovereign Loans***

In compliance with the terms of Paris Club rescheduling agreements, contractual interest maturities for individually impaired sovereign loans are capitalized to gross loans receivable. The Paris Club is an international forum of sovereign creditors who agree to formally reschedule a sovereign borrower's debt when they are experiencing financial difficulties and are unable to meet their obligations. The reschedulings generally occur over several years resulting in the capitalization of material amounts of contractual interest.

The rescheduling agreements contain concessions such that when the loans are returned to performing status their amortized cost will be reduced to reflect their original yields. The extent of this reduction is not measurable until the reschedulings are fully concluded and contractual payments resume. Until such time, we reduce the loan's carrying value by the impact of the capitalized contractual interest which is included in deferred revenue and other credits in Notes 3 and 4. At the time the loan is returned to performing status, the carrying value of the loan is adjusted to reflect the original yield of the loan.

### ***Loan Guarantees***

Loan guarantees that have been individually assessed to be impaired are identified using the same impairment criteria on the underlying loan as used to assess direct loans carried at amortized cost. When the underlying loan is 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. The amount of the initial impairment and any subsequent changes due to the re-evaluation of the obligation are recognized in the statement of comprehensive income as part of the provision for credit losses.

### **Allowance for Losses on Loans, Loan Commitments and Loan Guarantees**

The allowance for losses on loans, loan commitments and loan guarantees represents management's best estimate of probable credit losses and is based on the incurred loss model. The allowance is based on a review of all loans, loan guarantees and commitments and includes both collective and individual allowances.

### ***Allowances on Individually Impaired Loans***

Allowances on individually impaired loans are calculated as the difference between the carrying value of the loan and the present value of the estimated future cash flows discounted at the loan's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized loan asset reflects the cash flows that are expected to result on foreclosure less costs to obtain and sell the collateral whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss either increases or decreases and the change can be related objectively to an event occurring after the impairment was recognized (such as a change in the obligor's financial position or a change in the estimate of future cash flows), the previously recognized impairment loss is adjusted through the individual allowance.

The amount of initial impairment loss and any subsequent changes due to the re-evaluation of estimated future cash flows are recognized in the statement of comprehensive income as part of the provision for credit losses.

### ***Collective Allowance***

A collective allowance is established for losses which we estimate to have occurred, but have not yet been individually identified within our portfolio. Loans and loan guarantees not found to be individually impaired, as well as loan commitments are included in the collective assessment. The assessment is based on events that have occurred as of the reporting date and include factors such as business cycle trends and the fair value of collateral. The collective allowance is comprised of a base allowance, calculated using counterparty credit ratings, exposure, loss severity and probability of default factors. The collective allowance may also include concentration and market overlays.

For the **base allowance** we group our commercial performing loans, loan commitments and loan guarantees by industry of risk and then by secured and unsecured exposures. Sovereign exposures are classified into one portfolio. We assign credit ratings to our commercial and sovereign obligors using a system of fifteen credit ratings (AA to Watchlist) which are consistent with ratings used by our credit risk management policies. For secured portfolios, the exposure for each obligor is reduced by the fair value of collateral adjusted for estimated repossession costs. Based on these exposures we determine the appropriate base allowance. Loss

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

severity is determined based on historical loan loss rates and by management estimates for each of our exposure categories and default rates are based on a weighted average of Moody's and Standard & Poor's default tables.

We have a number of significant single name counterparty concentrations as a result of our mandate. A **counterparty concentration** overlay is established for counterparties whose exposure is deemed by management to represent an increased amount of risk. This overlay is applied to counterparties whose exposure exceeds 10% of our equity determined in accordance with the previous year's financial statements.

We determine the collective allowance using various assumptions based upon current counterparty credit ratings. We also assess the extent to which these ratings do 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.

The collective allowances for performing loans and individual allowances for impaired loans are shown as a reduction to loans receivable on the statement of financial position. Collective and individual allowances for loan commitments and loan guarantees are shown as liabilities on the statement of financial position.

### Foreclosed Assets

Assets that are returned to us<sup>1</sup> because of default under loan agreements are classified as held-for-use or held-for-sale according to management's intention. Those classified as held-for-use are included in equipment available for lease or reclassified as finance leases. Assets classified as held-for-use are initially recorded at fair value and subsequently recorded at cost less accumulated depreciation and impairment losses. Those initially classified as held-for-sale are recorded at fair value less costs to sell and included in other assets. Any write-downs at recognition are reported in the provision for credit losses and any gains are recorded in other income (expenses). We determine fair value based on market prices obtained from an independent appraiser along with current market data and other information available to us.

### Equity Financing

Equity financing investments are comprised of direct investments that we have made 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 also included within other income (expenses).

### Equipment Available for Lease

Equipment available for lease consists of aircraft that were returned to us because of default under the related obligors' loan agreements. While we do not in the ordinary course of business act as a lessor, from time to time we may engage in leasing activities for asset management purposes to maximize recoveries on returned aircraft and minimize potential losses.

Equipment available for lease is accounted for using the cost model, and is stated at cost less accumulated depreciation and impairment losses. Upon initial recognition of the asset, engines are treated as a separate component and are depreciated on a straight-line basis over their remaining useful life net of the residual value. The remaining useful lives of the engines range from one to seven years. The remaining components of the aircraft are grouped together and depreciation is calculated on a straight-line basis over the remaining useful life of the aircraft after consideration of any residual value. The remaining useful lives of the aircraft range from one to seven years. Residual values of the aircraft and engines are reviewed on an annual basis. The costs of subsequent major overhauls are capitalized and amortized over the period to the next overhaul, from one to six years.

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<sup>1</sup> 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 the sole beneficiary.

Depreciation as well as insurance and other costs related to the equipment available for lease are included in leasing and financing related expenses. Lease set-up costs are capitalized as part of the carrying value of the aircraft and amortized over a period equaling the term of the specific lease. Operating lease revenue is recognized on a straight-line basis over the terms of the underlying leases.

A review for impairment of equipment available for lease is performed quarterly. When events or changes in circumstances indicate that an aircraft may be impaired, or that a previously recorded impairment loss may no longer exist or may have increased or decreased, the recoverable amount of the asset is estimated. A prior period impairment loss is only reversed if there has been a change in the estimates used to determine the aircraft's recoverable amount since the last impairment loss was recognized.

An aircraft is impaired when its carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. Fair value is determined by considering market data and other information available to us. The value in use is the present value of the cash flows expected to result from the aircraft's use and eventual disposition. Current lease rentals, as well as market information on projected future rentals and fair values, form the basis of this calculation.

The amount of the impairment loss recognized is calculated as the difference between the carrying amount of the asset and its recoverable amount. When there is a reversal of impairment loss, the carrying amount of the aircraft is increased to the lower of the recoverable amount and the carrying amount that the aircraft would have had if the previous impairment loss had not been recognized. In both cases, the adjustment to the carrying value of the aircraft is recorded in other income (expenses).

#### **Finance Leases**

Finance leases relate to aircraft that were returned to us due to default under the related obligor's loan agreements and were subsequently placed back with the obligor under long-term, financing leases. These leases are recorded on the statement of financial position at the aggregate future minimum lease payments plus estimated residual values less unearned finance income. Residual values are based on independent appraisals and are reviewed periodically. An allowance for impairment is calculated consistent with the methodology used for our secured loan portfolio which is described on page 17.

Finance lease revenue is recognized in a manner that produces a constant rate of return on the investment in the lease.

#### **Property, Plant and Equipment**

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated 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 three 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 on 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 generated and purchased computer software. They are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over the estimated useful lives of the intangible assets. 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. The useful life used in the calculation of amortization for internally developed

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

software and computer software is five years. Amortization is recorded in administrative expenses.

### **Insurance Premiums**

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

Premiums for credit insurance are recognized in income when underlying sales are declared by the policyholders. Premiums on other insurance policies are deferred and recognized in income over the term of the policy on a straight-line basis.

### **Recoverable Insurance Claims**

Recoverable insurance claims represent the portion of insurance claims paid that are expected to be recovered. Recoverable insurance claims are reviewed and adjusted on a monthly basis with any subsequent net gain or loss on recovery credited or charged to claims-related expenses.

### **Allowance for Claims on Insurance**

The allowance for claims on insurance represents our estimate of future claims under the terms and conditions of our insurance policies. Included in the allowance are amounts for reported claims, incurred but not reported claims, and management's best estimate of the net present value of net future claims under existing policies. The allowance is based on an actuarial valuation of the insurance policy and claim liabilities. The actuarial valuation uses simulation techniques and is based on assumptions (severity of loss, loss development, frequency of claim, and discount rates used) relevant to the insurance programs which are derived from our own experience. The valuation process conforms to the recommendations of the Canadian Institute of Actuaries. Any adjustments are reflected in claims-related expenses in the period in which they become known. Future developments may result in claims which are materially different than the allowance provided.

### **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. 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 accounts payable and other credits. Reinsurance assets or liabilities are derecognised 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 EDC 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 EDC will receive from the reinsurer.

### **Deferred Revenue**

Deferred loan revenue, which consists of exposure, administration, and other upfront loan fees, is included in loans receivable and amortized as a yield increment over the term of the related loan. Guarantee fee revenue and certain insurance premium revenue are recognized as deferred revenue and are amortized over the term of the related guarantee or insurance policy.

**Derivative Financial Instruments**

Derivative financial 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 currently use include interest rate swaps, cross currency interest rate swaps, foreign exchange swaps, foreign exchange forwards, non-deliverable forwards, non-deliverable foreign exchange swaps and credit derivatives.

We use derivatives to manage interest rate risk, foreign exchange risk, and credit risk. These derivatives are only contracted with creditworthy counterparties in accordance with policies established in the Risk Management Office 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 statement of financial position upon the trade date and are removed from the 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. Realized and unrealized gains or losses due to a change in fair value of derivatives associated with our long and short-term loans payable and those associated with our marketable securities are recorded in other income (expenses). Realized and unrealized gains and losses due to changes in fair value of credit default swaps are also included in other income (expenses).

We also hold a portfolio of derivatives which we use to manage the foreign exchange risk associated with our operations being largely denominated in U.S. dollars. All income and expenses associated with this portfolio are included in interest expense, 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 condensed consolidated statement of cash flows because these swaps are used to manage our funding. We often issue debt in currencies which offer a more advantageous cost. 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. These derivatives are transacted to manage interest and foreign exchange rate risk on the related debt. Contractual interest on our long-term debt and commercial paper 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 using the effective interest rate method with interest recorded in interest expense.

The transaction costs related to our loans payable carried at amortized cost are capitalized. The transaction costs related to our loans payable designated at fair value through profit or loss are expensed as they are incurred and included within interest expense.

Any fair value gains or losses on initial recognition of our debt or derivatives at Level 3 on the fair value hierarchy are deferred and amortized over the life of the instruments.

**Accounts Payable**

Accounts payable and other credits are carried at amortized cost.

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### Translation of Foreign Currency

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars 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).

### Employee Future Benefits

We maintain defined benefit pension plans and other post-retirement benefit plans including a retiring allowance plan and life insurance, health and dental care benefits.

The 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).

Pension fund assets are valued at fair value for the purpose of calculating the expected return on plan assets.

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

Actuarial gains or losses arise from the difference between the actual rate of return and the expected rate of return on plan assets for that period and from changes in actuarial assumptions used to determine the accrued benefit obligation. They are amortized on a straight-line basis over the average remaining working lives of employees expected to receive benefits under the plans only if the net actuarial gain or loss at the beginning of the year is in excess of 10% of the greater of the accrued benefit obligation and the fair value of plan assets. Amounts below the 10% threshold are not recognized in income.

The cumulative difference between the defined benefit pension plans' costs and funding contributions is included in other assets or accounts payable and other credits as applicable.

### Early Adoption of IFRS

#### ***IFRS 9 – Financial Instruments***

The International Accounting Standards Board (IASB) has undertaken a project to replace *IAS 39 – Financial Instruments: Recognition and Measurement* with the objective of simplifying the recognition and measurement requirements for financial instruments.

The first phase of this project has been completed and *IFRS 9 – Financial Instruments*, which addresses the classification and measurement of financial instruments, was issued in October 2010. While the revised standard is not yet effective, we have elected to early adopt IFRS 9, as part of our first-time adoption of IFRS on January 1, 2011. The revised standard included changes that impact our marketable securities portfolio; our equity financing portfolio and our liabilities designated at fair value through profit or loss. The impact of early adopting this standard has been included in our opening equity adjustment.

#### ***Marketable Securities***

IFRS 9 reduces the number of classifications of financial instruments to two - (1) measured at amortized cost and (2) fair value through profit and loss. The classification of an instrument depends upon the entity's business model for managing its financial instruments and the characteristics of their contractual cash flows.

We elected to early adopt this standard which enables us to present the gains and losses on all of our marketable securities within net income. Under previous Canadian GAAP the unrealized fair value gains and losses on our available-for-sale (AFS) investments were recorded within other comprehensive income.

The AFS investments held directly by EDC did not meet the criteria under IFRS 9 to be classified at amortized cost and thus have been reclassified from AFS to fair value through profit or loss. As of January 1, 2010 we held \$706 million of these investments. The cumulative unrealized fair value gains of \$12 million that were within other comprehensive income on our date of transition were included in our opening equity adjustment. Going forward, the unrealized fair value gains and losses are now recorded in net income.

The AFS investments held by our subsidiary Exinvest, which amounted to \$19 million as of January 1, 2010, met the criteria under IFRS 9 to be classified at amortized cost. These investments were recorded at amortized cost on the date of transition to IFRS and are subsequently being carried at amortized cost using the effective interest method. Due to the short term nature of the investments, the difference between their previous carrying amount and their carrying amount under IFRS 9 was not significant.

*Equity Financing Portfolio*

Under previous Canadian GAAP we designated our equity financing portfolio as held-for-trading and carried the investments at fair value to be consistent with how the portfolio is managed. Under IFRS 9, these investments do not meet the criteria to be recorded at amortized cost and thus will continue to be carried at fair value with fair value gains and losses recorded in net income. The new standard provides that at initial recognition, an entity may make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income. Within our current portfolio, we have not made this election for any of our investments.

*Liabilities Designated at Fair Value through Profit or Loss*

The guidance included in IAS 39 related to the recognition and measurement of financial liabilities was substantially included into IFRS 9, except for the treatment of fair value gains and losses on those liabilities an entity has designated at fair value through profit or loss. Under previous Canadian GAAP, the entire change in fair value of a financial liability designated at fair value through profit or loss was included within net income, while under IFRS 9 the portion of the change in fair value related to changes in an entity's own credit risk is calculated and recorded in other comprehensive income.

We have concluded that the changes in fair value of our debt designated at fair value through profit or loss are mainly due to market factors such as changes in interest and foreign exchange rates and not due to changes in our own credit risk. EDC is an agent of the Government of Canada, and as such our debt obligations are obligations of Canada and thus are backed by the full faith and credit of the Government of Canada. Therefore there is no significant change in value that can be attributed to changes in credit risk. As a result, the entire change in fair value on our debt instruments will continue to be recorded within net income. Should ours or the government's credit rating change, we would then record the impact of this change on the fair value of our debt within other comprehensive income.

Summary of changes in classification of financial instruments:

<b>Financial instruments</b>	<b>Original (IAS 39)</b>	<b>New ( IFRS 9)</b>
Marketable securities held by EDC	Available-for-sale	Financial assets at fair value through profit or loss
Marketable securities held by Exinvest	Available-for-sale	Financial assets at amortized cost
Equity financing portfolio	Held-for-trading	Financial assets at fair value through profit or loss
Loans Payable	Designated at fair value through profit or loss	Designated at fair value through profit or loss

**Future Accounting Changes**

A number of new standards, interpretations, amendments and improvements have been recently issued by the International Accounting Standards Board. The standards that are relevant to EDC are listed below. Except as indicated, the standards are effective for annual periods beginning on or after January 1, 2013.

New standards include:

- *IFRS 10 – Consolidated Financial Statements* – provides a new definition of control that focuses on the need to have both power to direct the activities of an entity and exposure to both the negative and positive returns.
- *IFRS 11 – Joint Arrangements* – focuses on the rights and obligations of an arrangement, rather than its legal form in determining whether a joint operation or joint venture exists. With this new standard the equity method must be used to account for all joint arrangements.
- *IFRS 12 – Disclosure of Interest in Other Entities* – outlines the disclosure requirements for all forms of interests in other entities, both on and off the balance sheet.
- *IFRS 13 – Fair Value Measurement* – provides a consistent definition of fair value; guidance on how it should be measured; and disclosure requirements for use across all IFRSs.

Amended standards include:

- *IAS 1 – Presentation of Financial Statements* – amendments to revise the way other comprehensive income is presented. Effective for annual periods beginning on or after July 1, 2012.
- *IAS 19 – Employee Benefits* – the standard has been amended to remove the option to use the corridor method to defer gains and losses; requires that the impact of remeasuring pension assets and liabilities be recorded in other comprehensive income; and provides enhanced disclosure requirements for defined benefit plans.
- *IAS 27 – Separate Financial Statements* – this standard has been renamed and amended to maintain the accounting guidance on issuing separate financial statements.
- *IAS 28 – Investments in Associates and Joint Ventures* – amended as a consequence of the new standard on joint arrangements.

We are still assessing the impact of these new and amended standards on our financial statements.

**3. Loans Receivable**

<i>(in millions of Canadian dollars)</i>	<b>Sept 2011</b>	Jun 2011	Dec 2010	Sept 2010
Performing:				
Past due	<b>27</b>	20	18	19
2011 and beyond	<b>28,055</b>	25,581	26,269	26,352
Performing gross loans receivable	<b>28,082</b>	25,601	26,287	26,371
Individually impaired loans (Note 4)	<b>518</b>	486	710	873
Gross loans receivable	<b>28,600</b>	26,087	26,997	27,244
Accrued interest and fees receivable	<b>172</b>	144	163	175
Deferred loan revenue and other credits	<b>(555)</b>	(527)	(549)	(541)
Loans receivable	<b>\$28,217</b>	\$25,704	\$26,611	\$26,878

Deferred loan revenue includes a \$196 million reduction to the carrying value of impaired sovereign loans for interest owing after the initial measurement of impairment which was capitalized under Paris Club multilateral rescheduling agreements.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The breakdown of our gross loans receivable by credit grade is as follows:

<i>(in millions of Canadian dollars)</i>	Sept 2011		Jun 2011		Dec 2010		Sept 2010	
	\$	% of total	\$	% of total	\$	% of total	\$	% of Total
Investment grade	11,449	40	10,374	40	10,777	40	11,049	41
Below investment grade	16,633	58	15,227	58	15,510	57	15,322	56
Individually impaired loans (Note 4)	518	2	486	2	710	3	873	3
<b>Total gross loans receivable</b>	<b>\$28,600</b>	<b>100</b>	<b>\$26,087</b>	<b>100</b>	<b>\$26,997</b>	<b>100</b>	<b>\$27,244</b>	<b>100</b>

The following table shows our outstanding financing commitments by type:

<i>(in millions of Canadian dollars)</i>	Sept 2011	Jun 2011	Dec 2010	Sept 2010
Signed loan commitments	10,131	8,273	9,003	8,781
Letters of offer	2,927	3,195	2,267	3,903
Confirmed lines of credit	407	369	384	424
<b>Total</b>	<b>\$13,465</b>	<b>\$11,837</b>	<b>\$11,654</b>	<b>\$13,108</b>

#### 4. Individually Impaired Loans

<i>(in millions of Canadian dollars)</i>	Sept 2011	Jun 2011	Dec 2010	Sept 2010
Gross loans receivable				
Sovereign	280	264	291	301
Commercial	238	222	419	572
	518	486	710	873
Less: Deferred loan revenue and other credits	220	207	224	243
Individual allowance	216	200	257	334
<b>Carrying amount of individually impaired loans</b>	<b>\$82</b>	<b>\$79</b>	<b>\$229</b>	<b>\$296</b>

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

<i>(in millions of Canadian dollars)</i>	2011	2010
Balance at January 1	710	924
Loans classified as impaired	31	105
Disbursements on loan guarantees called	15	9
Capitalized interest	2	3
Principal repayments	(15)	(40)
Principal recoveries from loan sales	(23)	(21)
Loans written off	(46)	(21)
Principal restructured into shares	-	(6)
Loans reinstated to performing	(168)	(4)
Value of repossessed assets	(1)	(39)
Debt relief	(2)	(24)
Foreign exchange translation	15	(13)
<b>Balance at September 30</b>	<b>\$518</b>	<b>\$873</b>

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**5. Allowance for Losses on Loans, Loan Commitments and Guarantees**

The composition of the allowance for losses on loans, loan commitments and guarantees is as follows:

<i>(in millions of Canadian dollars)</i>	<b>Sept 2011</b>	Jun 2011	Dec 2010	Sept 2010
Base allowance				
Investment grade exposure	<b>97</b>	90	102	164
Non-investment grade exposure	<b>1,345</b>	1,288	1,308	1,535
Total base allowance	<b>1,442</b>	1,378	1,410	1,699
Counterparty concentration				
Investment grade exposure	<b>2</b>	1	3	5
Non-investment grade exposure	<b>115</b>	101	147	152
Total counterparty concentration	<b>117</b>	102	150	157
Market overlays				
Commercial unsecured portfolio	-	-	-	45
Other	-	-	-	16
Total market overlays	-	-	-	61
Total collective allowance	<b>1,559</b>	1,480	1,560	1,917
Allowance for individually impaired loans, loan commitments and guarantees	<b>294</b>	272	279	362
Total allowance for losses on loans, loan commitments and guarantees	<b>\$1,853</b>	\$1,752	\$1,839	\$2,279

The allowance for losses on loans, loan commitments and guarantees is as follows:

<i>(in millions of Canadian dollars)</i>	<b>Sept 2011</b>	Jun 2011	Dec 2010	Sept 2010
Allowance for losses on loans	<b>1,585</b>	1,494	1,561	1,727
Allowance for losses on loan commitments	<b>48</b>	44	93	326
Allowance for losses on loan guarantees*	<b>220</b>	214	185	226
Total	<b>\$1,853</b>	\$1,752	\$1,839	\$2,279

\* Included in the liability for loan guarantees

During the period, changes to the allowance for losses on loans, loan commitments and guarantees were as follows:

<i>(in millions of Canadian dollars)</i>	<b>Sept 2011</b>			Sept 2010		
	<b>Collective</b>	<b>Individual</b>	<b>Total</b>	Collective	Individual	Total
Balance at beginning of year	<b>1,560</b>	<b>279</b>	<b>1,839</b>	2,310	351	2,661
Adjustment on transition to IFRS	-	-	-	(14)	(18)	(32)
Provision for (reversal of) losses on loans, loan commitments and guarantees	<b>(75)</b>	<b>49</b>	<b>(26)</b>	(344)	41	(303)
Write-offs	-	<b>(43)</b>	<b>(43)</b>	-	(19)	(19)
Recovery of amounts written-off in prior years	-	<b>2</b>	<b>2</b>	-	14	14
Foreign exchange translation	<b>74</b>	<b>7</b>	<b>81</b>	(35)	(7)	(42)
Total	<b>\$1,559</b>	<b>\$294</b>	<b>\$1,853</b>	\$1,917	\$362	\$2,279

## 6. Recoverable Insurance Claims

<i>(in millions of Canadian dollars)</i>	<b>Sept 2011</b>	Sept 2010
Balance at January 1	<b>94</b>	93
Claims paid	<b>45</b>	95
Claims recovered	<b>(35)</b>	(30)
Change in recoverable portion of cumulative claims paid	<b>(59)</b>	(63)
Foreign exchange translation	<b>4</b>	2
<b>Balance at September 30</b>	<b>\$49</b>	\$97

## 7. Allowance for Claims on Insurance

The table below presents our net allowance for claims on insurance for our credit insurance (CI), contract insurance and bonding (CIB) and political risk insurance (PRI) programs.

<i>(in millions of Canadian dollars)</i>	<b>Sept 2011</b>				Jun 2011				Dec 2010				Sept 2010			
	CI	CIB	PRI	Total	CI	CIB	PRI	Total	CI	CIB	PRI	Total	CI	CIB	PRI	Total
Insurance	<b>168</b>	<b>69</b>	<b>567</b>	<b>804</b>	195	67	490	752	198	61	310	569	229	71	331	631
Reinsurance	<b>(20)</b>	<b>-</b>	<b>(122)</b>	<b>(142)</b>	(19)	-	(95)	(114)	(18)	-	(91)	(109)	(10)	-	(133)	(143)
Net allowance	<b>\$148</b>	<b>\$69</b>	<b>445</b>	<b>\$662</b>	\$176	\$67	\$395	\$638	\$180	\$61	\$219	\$460	\$219	\$71	\$198	\$488

## 8. Contingent Liabilities

As explained on page 92 of the 2010 Annual Report, we are subject to a limit imposed by the Export Development Act on our contingent liability arrangements. This limit shall at no time exceed the greater of an amount equal to 10 times our authorized capital, and \$45.0 billion. Our position against this limit is provided below.

<i>(in millions of Canadian dollars)</i>	<b>Sept 2011</b>	Jun 2011	Dec 2010	Sept 2010
Credit insurance	<b>13,959</b>	12,456	11,675	11,117
Contract insurance and bonding	<b>9,809</b>	9,309	9,884	9,795
Political risk insurance	<b>1,622</b>	1,676	1,721	1,331
Contingent liabilities – insurance program	<b>25,390</b>	23,441	23,280	22,243
Loan guarantees	<b>2,545</b>	2,375	2,547	3,397
<b>Total</b>	<b>\$27,935</b>	\$25,816	\$25,827	\$25,640

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

9. Interest Expense

<i>(in millions of Canadian dollars)</i>	Three months ended			Nine months ended	
	Sept 2011	Jun 2011	Sept 2010	Sept 2011	Sept 2010
Debt designated at fair value through profit or loss and related derivatives					
Short-term debt	6	9	11	24	26
Long-term debt – floating	18	19	19	57	46
Long-term debt – fixed	(8)	(6)	(4)	(17)	(12)
Debt carried at amortized cost					
Long-term debt – fixed	20	19	21	58	62
Total interest expense on debt and related derivatives	36	41	47	122	122
Interest income on currency swaps related to capital	(19)	(17)	(7)	(52)	(13)
Other	1	1	3	8	9
Total interest expense	\$18	\$25	\$43	\$78	\$118

For the first nine months of 2011, our interest expense on the fixed rate long-term debt designated at fair value through profit or loss is negative. This resulted from us having more fixed rate interest rate swap receivables than fixed rate loans payable designated at fair value through profit or loss during the period.

Our interest expense includes not only the cost of the debt issued by EDC and the related derivatives; but also, the impact of the currency swaps used to reduce the foreign currency risk of our capital. These currency swaps are set up with the objective to offset U.S. dollar assets and liabilities; as a result they include a U.S. dollar receivable component and a Canadian dollar payable component which each carry a floating interest rate. The decrease in our interest expense is mainly due to a significant increase in revenue on the currency swaps related to our capital in 2011 since the Canadian dollar interest rates applicable to the receivable component of these swaps are higher than the U.S. dollar rates on their payable component.

10. Net Insurance Premiums and Guarantee Fees

The following tables present our net insurance premiums and guarantee fee revenue for our credit insurance (CI), contract insurance and bonding (CIB) and political risk insurance (PRI) programs.

<i>(in millions of Canadian dollars)</i>	Three months ended											
	Sept 2011				Jun 2011				Sept 2010			
	CI	CIB	PRI	Total	CI	CIB	PRI	Total	CI	CIB	PRI	Total
Direct premiums	42	11	6	59	45	13	7	65	38	11	5	54
Reinsurance assumed	1	2	-	3	-	2	-	2	1	2	-	3
Reinsurance ceded	(2)	-	(2)	(4)	(1)	-	(3)	(4)	(1)	-	(2)	(3)
Net insurance premiums and guarantee fees	\$41	\$13	\$4	\$58	\$44	\$15	\$4	\$63	\$38	\$13	\$3	\$54

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

<i>(in millions of Canadian dollars)</i>	Nine months ended							
	Sept 2011				Sept 2010			
	CI	CIB	PRI	Total	CI	CIB	PRI	Total
Direct premiums	125	38	18	181	109	31	16	156
Reinsurance assumed	3	6	-	9	2	7	-	9
Reinsurance ceded	(6)	-	(8)	(14)	(4)	(1)	(5)	(10)
Net insurance premiums and guarantee fees	\$122	\$44	\$10	\$176	\$107	\$37	\$11	\$155

11. Other Income

<i>(in millions of Canadian dollars)</i>	Three months ended			Nine months ended	
	Sept 2011	Jun 2011	Sept 2010	Sept 2011	Sept 2010
Net unrealized loss on loans payable designated at fair value	(187)	(114)	(59)	(240)	(56)
Net unrealized gain on derivatives	177	99	27	226	89
Foreign exchange translation gain (loss)	(28)	1	9	(19)	(2)
Impairment loss on equipment available for lease	-	-	-	-	(71)
Net realized and unrealized gain on marketable securities	50	30	33	70	80
Net realized and unrealized gain (loss) on equity investments	(12)	5	12	(3)	15
Equity investment revenue	5	11	1	19	8
Other	13	2	1	25	(6)
Total other income	\$18	\$34	\$24	\$78	\$57

We have designated the majority of our long-term debt at fair value through profit or loss in order to obtain the same accounting treatment as their related derivatives. In general, the derivatives form an economic hedge with their related bonds. For the nine months ended September 30, 2011, the net realized and unrealized loss on our long-term debt and associated derivatives totalled \$14 million. The volatility on our long-term debt and the related derivatives is a function of a number of factors such as the requirement of generally accepted accounting principles to value the majority of our debt on the basis of our own credit rating (AAA) while the related derivatives are being valued on curves that reflect the credit risk of the resulting exposure. The net unrealized loss for the period is largely due to unrealized losses on the bonds issued by EDC, which were partially offset by the unrealized gains generated on the derivatives. This is because the credit adjusted curves used to value our derivatives did not decrease as much as the AAA curves used to value our bonds.

Included in other income is a foreign exchange translation loss of \$19 million for the nine months ended September 30, 2011. This loss is largely driven by the losses on the derivatives used to hedge our prospective U.S. dollar income and is mainly due to the depreciation of the Canadian dollar against the U.S. dollar in the third quarter of 2011. The goal of this hedging program is to increase the certainty with respect to our U.S. dollar net financing and investment income. The trade-off for creating this certainty is that gains or losses can be expected on the hedging contract.

We have designated the majority of our marketable securities at fair value through profit or loss; consistent with our business model for managing these instruments. For the nine months ended September 30, 2011, other income includes a \$70 million net realized and unrealized gain on these instruments. Our portfolio includes a significant portion of U.S. treasury securities and the gain is mainly due to the decrease of the U.S. treasury yield curve during the period.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**12. Provision for (Reversal of) Credit Losses**

The following tables provide the breakdown of our provision for (reversal of) credit losses recorded within net income.

<i>(in millions of Canadian dollars)</i>	<u>Three months ended</u>			<u>Nine months ended</u>	
	<b>Sept 2011</b>	Jun 2011	Sept 2010	<b>Sept 2011</b>	Sept 2010
Changes in portfolio composition*	(52)	(51)	(19)	(126)	(203)
Negative credit migration	40	17	(5)	78	27
Updates to independent variables:					
Updated probability of default rates	-	-	-	(84)	(6)
Increased concentration threshold	-	-	-	(28)	(17)
Changes in terms to maturity	(14)	50	25	36	(90)
Changes in collateral values	-	101	(6)	100	(9)
Other	-	(1)	(3)	(2)	(5)
<b>Total provision for (reversal of ) credit losses</b>	<b>\$(26)</b>	<b>\$116</b>	<b>\$(8)</b>	<b>\$(26)</b>	<b>\$(303)</b>

\* Represents provision requirements (release) as a result of disbursements, new financing volume and repayments.

<i>(in millions of Canadian dollars)</i>	<u>Three months ended</u>			<u>Nine months ended</u>	
	<b>Sept 2011</b>	Jun 2011	Sept 2010	<b>Sept 2011</b>	Sept 2010
Provision for (reversal of) losses on loans	(18)	123	43	(7)	(171)
Provision for (reversal of) losses on loan commitments	1	(4)	(58)	(46)	(120)
Provision for (reversal of) losses on loan guarantees	(9)	(3)	7	27	(12)
<b>Provision for (reversal of) credit losses</b>	<b>\$(26)</b>	<b>\$116</b>	<b>\$(8)</b>	<b>\$(26)</b>	<b>\$(303)</b>

**13. Claims-Related Expenses**

<i>(in millions of Canadian dollars)</i>	<u>Three months ended</u>			<u>Nine months ended</u>	
	<b>Sept 2011</b>	Jun 2011	Sept 2010	<b>Sept 2011</b>	Sept 2010
Claims paid	8	24	17	45	95
Claims recovered	(18)	(6)	(13)	(35)	(30)
Reinsurer's share of claims paid	-	-	-	-	(3)
Reinsurer's share of claims recovered	1	-	-	1	-
Actuarial increase (decrease) in the net allowance for claims on insurance	(15)	163	(38)	174	(68)
(Increase) decrease in recoverable insurance claims	31	9	1	46	(5)
Claims handling expenses	1	-	1	2	3
<b>Total claims-related expenses</b>	<b>\$8</b>	<b>\$190</b>	<b>\$(32)</b>	<b>\$233</b>	<b>\$(8)</b>

**14. Administrative Expenses**

<i>(in millions of Canadian dollars)</i>	<u>Three months ended</u>			<u>Nine months ended</u>	
	<b>Sept 2011</b>	Jun 2011	Sept 2010	<b>Sept 2011</b>	Sept 2010
Employee benefits	<b>45</b>	48	43	<b>139</b>	129
Accommodation	<b>4</b>	5	4	<b>13</b>	13
Depreciation	<b>6</b>	6	5	<b>18</b>	14
Other	<b>12</b>	11	12	<b>32</b>	34
<b>Total administrative expenses</b>	<b>\$67</b>	\$70	\$64	<b>\$202</b>	\$190

Employee future benefit expenses included in employee benefits above:

<i>(in millions of Canadian dollars)</i>	<u>Three months ended</u>			<u>Nine months ended</u>	
	<b>Sept 2011</b>	Jun 2011	Sept 2010	<b>Sept 2011</b>	Sep 2010
Pension benefit expense	<b>5</b>	4	5	<b>14</b>	15
Other post-employment benefit and severance expense	<b>3</b>	3	3	<b>9</b>	8
	<b>\$8</b>	\$7	\$8	<b>\$23</b>	\$23

**15. Share Capital**

EDC's authorized share capital is \$3.0 billion consisting of 30 million shares with a par value of \$100 each. The number of shares issued and fully paid is 13.3 million (2010 – 13.3 million). In March 2011, a dividend of \$350 million was paid to the Government of Canada (2010 - nil).

**16. 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 EDC has adequate capital to support the evolving needs of Canadian exporters and investors while remaining financially self-sustaining.

The following table represents the breakdown of EDC's supply of capital:

<i>(in millions of Canadian dollars)</i>	<b>Sept 2011</b>	Jun 2011	Dec 2010	Sept 2010
Allowance for losses on loans	<b>1,585</b>	1,494	1,561	1,727
Allowance for losses on loan commitments	<b>48</b>	44	93	326
Allowance for losses on loan guarantees	<b>220</b>	214	185	226
Allowance for claims on insurance	<b>804</b>	752	569	631
Reinsurers' share of allowance for claims	<b>(142)</b>	(114)	(109)	(143)
Share capital	<b>1,333</b>	1,333	1,333	1,333
Retained earnings	<b>6,867</b>	6,584	6,628	6,172
<b>Supply of capital</b>	<b>\$10,715</b>	\$10,307	\$10,260	\$10,272

**17. Financial Instruments Risk**

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

**Credit Risk**

Credit risk is the risk of loss incurred if a counterparty fails to meet its financial commitments. We are exposed to credit risk on financial instruments under both our lending program and our treasury activities.

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. The exposure includes gross loans receivable, loan guarantees, equity financing, investments and derivative assets.

<i>(in millions of Canadian dollars)</i>	Sept 2011		Jun 2011		Dec 2010		Sept 2010	
	Exposure		Exposure		Exposure		Exposure	
Country	\$	%	\$	%	\$	%	\$	%
United States	14,255	38	12,629	37	13,768	39	14,989	41
Canada	6,143	16	5,999	17	6,071	17	6,015	17
Mexico	1,896	5	1,645	5	1,698	5	1,339	4
India	1,516	4	1,341	4	1,522	4	1,478	4
United Kingdom	1,245	3	1,217	4	1,087	3	990	3
Brazil	1,237	3	1,146	3	970	3	813	2
Chile	839	2	965	3	1,012	3	1,136	3
Qatar	677	2	633	2	680	2	702	2
Australia	623	2	580	2	529	1	531	1
Spain	561	2	561	2	512	1	472	1
United Arab Emirates	558	2	514	1	578	2	603	2
Other	7,710	21	7,215	20	7,247	20	7,454	20
<b>Total</b>	<b>\$37,260</b>	<b>100</b>	<b>\$34,445</b>	<b>100</b>	<b>\$35,674</b>	<b>100</b>	<b>\$36,522</b>	<b>100</b>

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

<i>(in millions of Canadian dollars)</i>	<b>Sept 2011 Exposure</b>		<b>Jun 2011 Exposure</b>		<b>Dec 2010 Exposure</b>		<b>Sept 2010 Exposure</b>	
<b>Industry</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Commercial:								
Aerospace	<b>10,134</b>	<b>27</b>	9,027	26	8,966	25	8,879	24
Infrastructure and environment*	<b>6,302</b>	<b>17</b>	6,572	19	6,344	18	6,352	17
Extractive	<b>6,142</b>	<b>16</b>	5,762	17	5,916	17	5,481	15
Surface transportation	<b>4,624</b>	<b>12</b>	4,324	13	4,810	13	5,683	16
Information and communication technology	<b>3,351</b>	<b>9</b>	3,076	9	3,551	10	3,902	11
Other	<b>1,644</b>	<b>5</b>	1,544	4	1,754	5	1,671	5
<b>Total commercial</b>	<b>32,197</b>	<b>86</b>	30,305	88	31,341	88	31,968	88
Sovereign	<b>5,063</b>	<b>14</b>	4,140	12	4,333	12	4,554	12
<b>Total</b>	<b>\$ 37,260</b>	<b>100</b>	\$34,445	100	\$35,674	100	\$36,522	100

\*Includes financial institution exposure

### Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of 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 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.

### 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 financial instruments risk as well as the method we use to measure exposure to risk are disclosed within our 2010 annual report in the notes related to our derivative financial instruments and debt instruments, as well as in the text and tables displayed in green font in management's discussion and analysis on pages 69 to 73.

## 18. Related Party Transactions

The Government of Canada is the sole shareholder of Export Development Canada. 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.

**19. Transition to International Financial Reporting Standards (IFRS)**

Our transition to IFRS is accounted for in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*, with a transition date of January 1, 2010 and reflects those accounting standards applicable for December 31, 2011.

As permitted by IFRS 1, we applied the following three exemptions from the requirements of IFRS and from their retrospective application:

*Equipment Available for Lease*

We elected to measure our equipment available for lease at the date of transition to IFRS at its fair value of \$304 million and use that fair value as its deemed cost at that date.

*Employee Benefits*

For our defined benefit pension plans, we elected to recognize the cumulative unamortized actuarial losses of \$97 million in equity as of the date of transition to IFRS.

*Insurance Contracts*

We elected to apply the transitional provisions of IFRS 4, which require us to apply IFRS 4 prospectively. There was no financial impact as a result of applying this exemption.

**Condensed Consolidated Statement of Comprehensive Income**

We have elected to present our condensed consolidated statement of income and condensed consolidated statement of comprehensive income as one combined statement titled condensed consolidated statement of comprehensive income.

**Condensed Consolidated Statement of Cash Flows**

There are no material changes to the statement of cash flows as a result of IFRS implementation. Any differences between the two statements relate to reclassifications as discussed in this note. Also, in accordance with IFRS we disclosed cash received for interest for current and comparative periods.

**OPENING EQUITY ADJUSTMENT AND OPENING STATEMENT OF FINANCIAL POSITION**

IFRS 1 requires that our initial financial statements under the new standards reflect our financial position as if IFRS had always been applied, with any differences upon transition eliminated through opening equity. This adjustment resulted in a \$164 million reduction in our opening retained earnings. The following tables provide the details of our opening retained earnings adjustment and a reconciliation between previous Canadian GAAP and IFRS for our January 1, 2010 opening statement of financial position.

**Reconciliation of Equity**

*as at January 1, 2010*

*(in millions of Canadian dollars)*

	Note	
Share capital		1,333
Retained earnings under previous Canadian GAAP		5,317
Accumulated other comprehensive loss	A	(62)
Equipment available for lease	D	(11)
Aircraft maintenance costs	D	4
Loans payable	F	2
Defined benefit pension plans	G	(97)
Retained earnings under IFRS		5,153
Total equity under IFRS		\$6,486

**RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION***as at January 1, 2010**(in millions of Canadian dollars)*

	Previous Canadian GAAP balance	IFRS reclassifications	IFRS adjustments	IFRS balance
<b>Assets</b>				
Cash	52	-	-	52
Marketable securities: (Notes A and E)				
Available-for-sale	751	(726)	(25)	-
Held-for-trading	4,629	(4,629)	-	-
Marketable securities: (Note A)				
At fair value through profit or loss	-	5,335	-	5,335
At amortized cost	-	20	-	20
Derivative instruments	1,909	-	-	1,909
Loans receivable at amortized cost (Notes B and E)	26,267	246	(36)	26,477
Allowance for losses on loans (Notes C and E)	(1,948)	-	14	(1,934)
Equity financing at fair value through profit or loss (Note H)	196	2	-	198
Equipment available for lease (Notes D and H)	315	18	(7)	326
Net investment in finance leases	113	1	-	114
Investment in joint ventures (Note E)	-	-	25	25
Recoverable insurance claims	93	-	-	93
Reinsurers' share of allowance for claims	159	-	-	159
Other assets (Note H)	124	(8)	-	116
Property, plant and equipment	17	-	-	17
Intangible assets	41	-	-	41
Accrued interest and fees (Note H)	180	(180)	-	-
<b>Total Assets</b>	<b>\$32,898</b>	<b>\$79</b>	<b>\$(29)</b>	<b>\$32,948</b>
<b>Liabilities and Equity</b>				
Accounts payable and other credits (Notes E, G and H)	147	11	93	251
Loans payable:				
Designated at fair value through profit or loss	22,139	-	-	22,139
At amortized cost (Note F)	2,296	-	(2)	2,294
Derivative instruments	222	-	-	222
Allowance for losses on loan commitments (Notes C and E)	713	(242)	(18)	453
Allowance for claims on insurance	720	-	-	720
Deferred insurance premiums	73	-	-	73
Loan guarantees (Notes B and C)	-	310	-	310
	26,310	79	73	26,462
<b>Equity</b>				
Accumulated other comprehensive loss (Note A)	(62)	-	62	-
Share capital	1,333	-	-	1,333
Retained earnings	5,317	-	(164)	5,153
	6,588	-	(102)	6,486
<b>Total Liabilities and Equity</b>	<b>\$32,898</b>	<b>\$79</b>	<b>\$(29)</b>	<b>\$32,948</b>

**EXPLANATION OF OPENING ADJUSTMENTS AND RECLASSIFICATIONS*****A. Marketable Securities***

Under IFRS 9, financial assets are either measured at amortized cost or fair value. The marketable securities held by EDC that were classified as held-for-trading (HFT) or available-for-sale (AFS) under previous Canadian GAAP have been reclassified to marketable securities at fair value through profit or loss. The AFS marketable securities held by Exinvest are held principally to collect interest and principal and will be carried at amortized cost under IFRS. Due to the short-term nature of these investments, their carrying value under previous Canadian GAAP was not significantly different from their carrying value under IFRS.

Under IFRS, Exinvest's pro-rata share of its joint ventures' assets and liabilities will be accounted for using the equity method. Previously, Exinvest's interest in its joint ventures was consolidated into the accounts using the proportionate consolidation method. Upon our transition to IFRS this resulted in a reduction in marketable securities of \$25 million.

Under previous Canadian GAAP the unrealized foreign currency gains and losses and fair value gains and losses on our AFS marketable securities were recorded within accumulated other comprehensive income, while under IFRS, these gains and losses will be recorded within net income. Included in our opening equity adjustment is a \$62 million reduction in retained earnings representing the \$74 million cumulative net foreign exchange loss and the \$12 million cumulative net unrealized fair value gain related to these investments.

***B. Loans Receivable***

Our loans receivable will continue to be carried at amortized cost under IFRS. Loan interest and fees receivable of \$178 million were reclassified from accrued interest and fees upon transition. In addition, \$68 million of deferred guarantee fees were reclassified to the liability for loan guarantees.

The change from the proportionate consolidation to the equity method of accounting for Exinvest's investment in joint ventures reduced loans receivable by \$33 million and accrued loan interest by \$3 million.

***C. Allowance for Losses on Loans, Loan Commitments and Loan Guarantees***

The allowance for losses on loans was reduced by the \$14 million allowance recorded on the loans held by the joint ventures and included within investment in joint ventures (see Note E below).

The allowance for losses on loan commitments and loan guarantees was also reduced by the individual allowance of \$18 million established under previous Canadian GAAP for a potential call on an indemnity provided to Canada Account by the joint ventures. In addition, the allowance related to loan guarantees amounting to \$242 million was reclassified to the liability for loan guarantees.

***D. Equipment Available for Lease***

The table below outlines the details of the adjustments made to our equipment available for lease as a result of implementing IFRS. Under IFRS 1 we elected to measure our aircraft at fair value on our transition date which resulted in a decrease to their carrying value of \$11 million. Changes to the amortization period of major overhauls resulted in the capitalization of \$4 million of aircraft maintenance costs that were expensed under previous Canadian GAAP. Deferred maintenance and lease set up costs of \$18 million were reallocated from other assets in order to be included in the carrying value of the equipment available for lease.

*(in millions of Canadian dollars)*

Impact of recording aircraft at fair value on transition date	(11)
Impact of change in amortization of major overhaul costs	4
Reallocation of deferred maintenance and lease set-up costs	18
Change to carrying value	\$11

**E. Investment in Joint Ventures**

The change from the proportionate consolidation to the equity method of accounting for Exinvest's investment in joint ventures resulted in adjustments to our marketable securities, loans receivable, allowance for losses on loans, accrued interest and fees, and accounts payable and other credits. The investment of \$25 million represents the initial cost of the joint ventures, adjusted to include our pro rata share of post-acquisition earnings up to the transition date, as well as an allowance for a potential call on an indemnity provided to Canada Account by the joint ventures.

**Reconciliation of Investment Value***(in millions of Canadian dollars)*

Marketable securities	25
Loans receivable	33
Interest receivable	3
Accounts payable	(4)
Cumulative investment in joint venture	57
Allowance for call on indemnity	(18)
Impairment loss on joint ventures	(14)
Investment in joint ventures	\$25

**F. Loans Payable Amortized Cost**

Under IFRS, the transaction costs related to our debt instruments carried at amortized cost are capitalized and amortized, as opposed to being expensed as incurred under previous Canadian GAAP. This resulted in a \$2 million decrease in our loans payable carried at amortized cost.

**G. Accounts Payable and Other Credits**

Our election under IFRS 1 to recognize the cumulative net unamortized actuarial losses related to our employee defined benefit plans in equity as of the date of transition to IFRS resulted in a \$97 million increase in accounts payable and other credits.

The change from proportionate consolidation to the equity method of accounting for Exinvest's investment in joint ventures resulted in a reduction in accounts payable and other credits of \$4 million upon transition.

Reclassifications from accrued interest and fees and from other assets contributed to an increase in accounts payable and other credits of \$11 million (see Note H below).

**H. Reclassifications**

Breakdowns of the reclassifications related to accrued interest and fees and other assets are provided in the following tables:

**Reclassification of Accrued Interest and Fees to:***(in millions of Canadian dollars)*

Loans receivable at amortized cost	(178)
Equity financing at fair value	(2)
Net investment in finance leases	(1)
Other assets	(7)
Accounts payable and other credits	8
Total reduction to accrued interest and fees	\$(180)

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### Reclassification of Other Assets (to)/from:

*(in millions of Canadian dollars)*

Accrued guarantee fees	7
Accounts payable and other credits	3
Deferred maintenance expenses	(13)
Lease set up costs	(5)
<b>Total reduction to other assets</b>	<b>\$(8)</b>

### RESTATED FINANCIAL STATEMENTS

The following pages include the reconciliations between previous Canadian GAAP and IFRS for the following:

- our financial position for the year ended December 31, 2010
- our comprehensive income for the year ended December 31, 2010

**RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION***as at December 31, 2010**(in millions of Canadian dollars)*

	Previous Canadian GAAP balance	IFRS reclassifications	IFRS adjustments	IFRS balance
<b>Assets</b>				
Cash	124	-	-	124
Marketable securities:				
Available-for-sale	1,327	(1,296)	(31)	-
Held-for-trading	2,383	(2,383)	-	-
Marketable securities:				
At fair value through profit or loss	-	3,660	-	3,660
At amortized cost	-	19	-	19
Derivative instruments	2,010	-	-	2,010
Loans receivable at amortized cost	26,415	225	(29)	26,611
Allowance for losses on loans	(1,566)	-	5	(1,561)
Equity financing at fair value through profit or loss	316	1	-	317
Equipment available for lease	171	17	(45)	143
Net investment in finance leases	99	-	-	99
Investment in joint ventures	-	-	47	47
Recoverable insurance claims	92	2	-	94
Reinsurers' share of allowance for claims	109	-	-	109
Other assets	150	(15)	-	135
Property, plant and equipment	33	-	-	33
Intangible assets	42	-	-	42
Accrued interest and fees	167	(167)	-	-
<b>Total Assets</b>	<b>\$31,872</b>	<b>\$63</b>	<b>\$(53)</b>	<b>\$31,882</b>
<b>Liabilities and Equity</b>				
Accounts payable and other credits	168	3	88	259
Loans payable:				
Designated at fair value through profit or loss	20,465	-	-	20,465
At amortized cost	2,020	-	(1)	2,019
Derivative instruments	200	-	-	200
Allowance for losses on loan commitments	278	(185)	-	93
Allowance for claims on insurance	569	-	-	569
Deferred insurance premiums	71	-	-	71
Loan guarantees	-	245	-	245
	23,771	63	87	23,921
<b>EQUITY</b>				
Accumulated other comprehensive loss	(80)	-	80	-
Share capital	1,333	-	-	1,333
Retained earnings	6,848	-	(220)	6,628
	8,101	-	(140)	7,961
<b>Total Liabilities and Equity</b>	<b>\$31,872</b>	<b>\$63</b>	<b>\$(53)</b>	<b>\$31,882</b>

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**RECONCILIATION OF CONSOLIDATED COMPREHENSIVE INCOME**

for the year ended December 31, 2010

(in millions of Canadian dollars)

	Previous Canadian GAAP balance	IFRS adjustments	IFRS balance
Financing and investment revenue			
Loan	1,006	(2)	1,004
Finance lease	8	-	8
Operating lease	32	-	32
Debt relief	25	-	25
Investment	48	(1)	47
<b>Total financing and investment revenue</b>	<b>1,119</b>	<b>(3)</b>	<b>1,116</b>
Interest expense	147	-	147
Leasing and financing related expenses	59	(6)	53
<b>Net Financing and Investment Income</b>	<b>913</b>	<b>3</b>	<b>916</b>
<b>Loan Guarantee Fees</b>	<b>33</b>	<b>-</b>	<b>33</b>
Insurance premiums and guarantee fees	210	-	210
Reinsurance assumed	-	11	11
Reinsurance ceded	-	(11)	(11)
<b>Net Insurance Premiums and Guarantee Fees</b>	<b>210</b>	<b>-</b>	<b>210</b>
<b>Other Expenses</b>	<b>(3)</b>	<b>(38)</b>	<b>(41)</b>
<b>Administrative Expenses</b>	<b>279</b>	<b>(6)</b>	<b>273</b>
<b>Income before Provision and Claims-Related Expenses</b>	<b>874</b>	<b>(29)</b>	<b>845</b>
<b>Provision for (Reversal of) Credit Losses</b>	<b>(658)</b>	<b>27</b>	<b>(631)</b>
<b>Claims-Related Expenses</b>	<b>1</b>	<b>-</b>	<b>1</b>
<b>Net Income</b>	<b>\$1,531</b>	<b>\$(56)</b>	<b>\$1,475</b>
<b>Other Comprehensive Income</b>			
Net unrealized gains on available-for-sale marketable securities	(10)	10	-
Reclassification of gains on available-for-sale marketable securities to income	(8)	8	-
Other comprehensive loss	(18)	18	-
<b>Comprehensive Income</b>	<b>\$1,513</b>	<b>\$(38)</b>	<b>\$1,475</b>