



CANADA ACCOUNT ANNUAL REPORT
FOR THE GOVERNMENT OF CANADA YEAR
ENDING MARCH 31, 2018

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Overview

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

Authority

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

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

Risk Management

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

Management

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

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

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

Eligibility

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

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

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

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

Policy on Concessional Financing

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

Disclosure

Information on current transactions is posted on EDC’s website (www.edc.ca/EN/About-Us/Disclosure) in accordance with the Corporation’s Disclosure Policy.

Fiscal Year

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

Management’s Discussion and Analysis

Highlights

The following are highlights of Canada Account activity during the fiscal year 2017-2018:

- Automotive industry loans and notes receivable of \$1.1 billion and accrued interest of \$1 billion were written off.
- We recorded a reversal of provision for credit losses on loans and loan guarantees of \$96 million mainly due to changes in the provision rates used in the allowance calculation for sovereign lenders as well as repayments of loans receivable which reduced the overall exposure on which the allowance is calculated.
- Remittances of principal, interest, lease revenue, claims recovered and fees, net of expenses, totalling \$267 million were made to the CRF by EDC.
- Subsequent to March 31, 2018, a new Ministerial Authorization was signed allowing for financing of up to \$7 billion related to the acquisition and ownership of the Trans Mountain Pipeline entities. At December 31, 2018, there were \$6.5 billion in loan facilities issued against this Ministerial Authorization, of which \$5.3 billion has been disbursed.

Position against Statutory Limit

Section 24 of the Export Development Act allows Canada Account to have up to an aggregate of \$20 billion in contingent liabilities (i.e. insurance policies, guarantees and other contingent arrangements), outstanding loan commitments to borrowers and outstanding principal amounts of obligations owed to the Corporation. The position against this limit as at March 31, 2018 was \$1,657 million (March 31, 2017 - \$3,020 million). Details of this position are as follows:

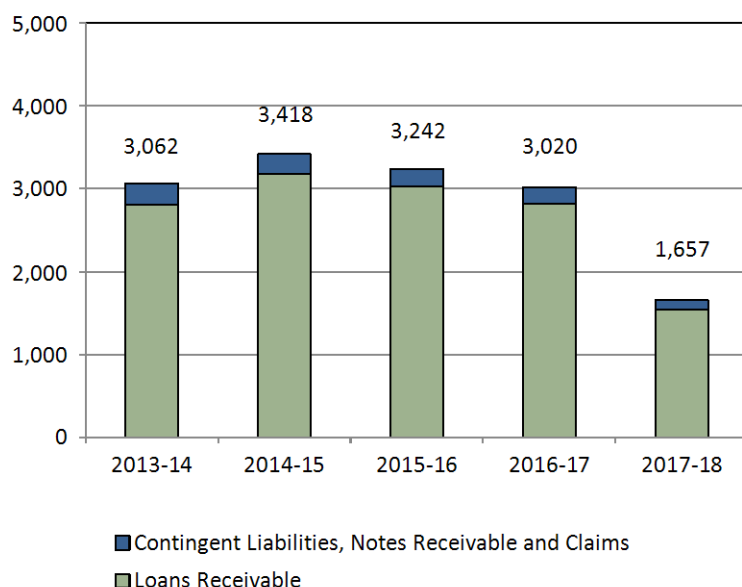
| <i>(in millions of Canadian dollars)</i> | Mar 2018 | Mar 2017 |
|--|---------------------|-------------|
| Loans Receivable | | |
| Concessional | 599 | 654 |
| Non-concessional | 950 | 2,169 |
| | 1,549 | 2,823 |
| Contingent liabilities and Notes Receivable | | |
| Loan guarantees | 98 | 120 |
| Credit insurance | 10 | 10 |
| Notes receivable | - | 67 |
| | 108 | 197 |
| Position Against Statutory Limit | \$1,657 | \$3,020 |

Five-Year Summary

The position against Canada Account Statutory Limit has been affected by the following items:

- The higher position in 2014-2015 was a result of new loan disbursements to assume loans on behalf of the Canadian Wheat Board combined with foreign exchange translation.
- The decrease to the position against the statutory limit in both 2015-16 and 2016-17 is primarily due to loan repayments.
- The decrease in position for 2017-2018 is primarily due to loan write-offs in the automotive industry and loan repayments.

**Position Against Canada Account Statutory Limit
Five-Year History (\$ in millions)**



Concentration of Exposure

The following table reflects the country exposure where the risk resided as at March 31, 2018:

| Country | Concessional | Non- Concessional | Loan Guarantees | Credit Insurance | Total | % | Total | % |
|---------------|---------------------|----------------------|--------------------|---------------------|----------------|------------|----------------|------------|
| | Loans Receivable | Loans Receivable | | | | | | |
| United States | - | 712 | - | - | 712 | 43 | 1,947 | 64 |
| China | 379 | - | - | - | 379 | 23 | 416 | 14 |
| Iraq | - | 110 | - | - | 110 | 7 | 125 | 4 |
| Romania | - | - | 98 | - | 98 | 6 | 120 | 4 |
| Argentina | - | 92 | - | - | 92 | 6 | 111 | 4 |
| Turkey | 86 | - | - | - | 86 | 5 | 93 | 3 |
| Morocco | 68 | - | - | - | 68 | 4 | 74 | 2 |
| Other * | 66 | 36 | - | 10 | 112 | 6 | 134 | 5 |
| Total | \$599 | \$950 | \$98 | \$10 | \$1,657 | 100 | \$3,020 | 100 |

* Includes 11 countries with exposures ranging from \$0.02 million to \$42 million.

Exposure by Currency

| | | Mar 2018 | | | Mar 2017 | | | |
|--|--------|----------------|------------------|------------|-------------|----------------|------------------|------------|
| <i>(in millions of Canadian dollars)</i> | | | | | | | | |
| Currency | Amount | CAD Equiv. | Exchange Rate | % | Amount | CAD Equiv. | Exchange Rate | % |
| USD | 1,160 | 1,495 | 1.2884 | 90 | 2,125 | 2,826 | 1.3299 | 94 |
| CAD | 162 | 162 | - | 10 | 194 | 194 | - | 6 |
| Total | | \$1,657 | | 100 | | \$3,020 | | 100 |

The overall USD exposure decreased in the year primarily due to loan write-offs in the automotive industry and loan repayments.

Commercial and Sovereign Exposure

| | | Mar 2018 | | | Mar 2017 | | |
|--|--------------|--------------|----------------|----------------|----------------|----------------|--|
| <i>(in millions of Canadian dollars)</i> | | | | | | | |
| | Commercial | Sovereign | Total | Commercial | Sovereign | Total | |
| Loans Receivable | | | | | | | |
| Concessional | - | 599 | 599 | - | 654 | 654 | |
| Non-concessional | 712 | 238 | 950 | 1,892 | 277 | 2,169 | |
| | 712 | 837 | 1,549 | 1,892 | 931 | 2,823 | |
| Contingent Liabilities and Notes Receivable | | | | | | | |
| Loan guarantees | - | 98 | 98 | - | 120 | 120 | |
| Credit insurance | 10 | - | 10 | 10 | - | 10 | |
| Notes receivable | - | - | - | 67 | - | 67 | |
| | 10 | 98 | 108 | 77 | 120 | 197 | |
| Total | \$722 | \$935 | \$1,657 | \$1,969 | \$1,051 | \$3,020 | |
| Percentage | 44% | 56% | 100% | 65% | 35% | 100% | |

The decrease in the commercial and sovereign exposure was primarily due to loan write-offs in the automotive industry and loan repayments.

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

| <i>(in millions of Canadian dollars)</i> | Mar 2018 | | Mar 2017 | |
|--|----------------|------------|----------|-----|
| | Total | % | Total | % |
| Commercial (by industry): | | | | |
| Aerospace | 566 | 34 | 742 | 25 |
| Automotive | 146 | 9 | 1,217 | 40 |
| Extractive | 10 | 1 | 10 | - |
| | 722 | 44 | 1,969 | 65 |
| Sovereign (by country): | | | | |
| China | 379 | 23 | 416 | 14 |
| Iraq | 110 | 7 | 125 | 4 |
| Romania | 98 | 6 | 120 | 4 |
| Argentina | 92 | 6 | 111 | 4 |
| Turkey | 86 | 5 | 93 | 3 |
| Morocco | 68 | 4 | 74 | 2 |
| Other | 102 | 5 | 112 | 4 |
| | 935 | 56 | 1,051 | 35 |
| Total | \$1,657 | 100 | \$3,020 | 100 |

Debt Forgiveness/Debt Relief for Sovereign Loans Receivable

In 1996, the International Monetary Fund and the World Bank proposed that relief be given on the external debt of some of the world's most Heavily Indebted Poor Countries (HIPCs). This initiative was approved by member governments including Canada. The exposure relates to agreements in place prior to 1996. At March 31, 2018, Canada Account had loans receivable exposure eligible for debt relief or debt reduction to one HIPC totalling \$12.0 million or 1.3% of the sovereign loan portfolio (March 31, 2017 – \$12.4 million or 1.2%).

Loan Portfolio by Interest Type

| <i>(in millions of Canadian dollars)</i> | Mar 2018 | | | Mar 2017 | | |
|--|----------------|--------------|----------------|----------|----------|---------|
| | Fixed | Floating | Total | Fixed | Floating | Total |
| Concessional | 592 | 7 | 599 | 647 | 7 | 654 |
| Non-concessional | 622 | 328 | 950 | 791 | 1,378 | 2,169 |
| Total | \$1,214 | \$335 | \$1,549 | \$1,438 | \$1,385 | \$2,823 |
| Percentage | 78% | 22% | 100% | 51% | 49% | 100% |

The largest contributor to the decrease in the non-concessional floating rate portfolio were the loan write-offs in the automotive industry.

Cash Flow Realized on Loans and Notes Receivable

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

| <i>(in millions of Canadian dollars)</i> | Mar 2018 | | | Mar 2017 | | |
|--|---|-------------------------------|--------------|---|-------------------------------|----------|
| | Average annual principal balance | Interest cash flow | % | Average annual principal balance | Interest cash flow | % |
| Concessional | 614 | 3 | 0.40% | 663 | -* | 0.00% |
| Non-concessional | 1,802 | 23 | 1.30% | 2,302 | 35 | 1.54% |
| Total | \$2,416 | \$26 | 1.07% | \$2,965 | \$35 | 1.19% |

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

The decrease in the average principal balances was primarily due to regularly scheduled repayments tempered by foreign exchange translation.

Financial Arrangements Facilitated

There were no financial arrangements facilitated greater than \$1 million to report for the fiscal year ending March 31, 2018 (March 31, 2017 – nil).

Canada Account Financial Statements

Statement of Receivables

| <i>as at</i> | Mar | Mar |
|---|--------------|---------|
| <i>(in millions of Canadian dollars)</i> | 2018 | 2017 |
| Loans receivable (Note 3) | 1,549 | 2,823 |
| Accrued interest and fees | 191 | 1,160 |
| Notes receivable (Note 5) | - | 67 |
| Unamortized discount on concessionary loans | (408) | (432) |
| Allowance for losses on loans | (337) | (1,463) |
| Allowance for losses on accrued interest and fees | (185) | (1,155) |
| Total | \$810 | \$1,000 |

Statement of Contingent Liabilities

| <i>as at</i> | Mar | Mar |
|--|--------------|-------|
| <i>(in millions of Canadian dollars)</i> | 2018 | 2017 |
| Loan guarantees (Note 7) | 98 | 120 |
| Credit insurance | 10 | 10 |
| Total | \$108 | \$130 |

Statement of Revenue and Expenses

| <i>for the year ended</i> | Mar | Mar |
|--|-------------|-------|
| <i>(in millions of Canadian dollars)</i> | 2018 | 2017 |
| Revenue | | |
| Loan interest and guarantee fees | 37 | 73 |
| Amortization of discount | 24 | 24 |
| Total Revenue | 61 | 97 |
| Expenses | | |
| Administrative charges (Note 6) | 6 | 8 |
| Loss (gain) on foreign currency translation | 60 | (87) |
| Reversal of provision for credit losses on loans and accrued interest and fees | (96) | (102) |
| Total Expenses | (30) | (181) |
| Net Income | \$91 | \$278 |

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

| <i>for the year ended</i> | Mar | Mar |
|--|----------------|---------|
| <i>(in millions of Canadian dollars)</i> | 2018 | 2017 |
| Remittances to CRF by EDC | | |
| Principal | (247) | (285) |
| Interest, premiums and fees | (26) | (35) |
| Administrative charges | 6 | 8 |
| Total remitted to CRF | (\$267) | (\$312) |

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

Notes to the Annual Report

Note 1. Mandate and Authority

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

The Act allows Canada Account to have up to an aggregate of \$20 billion in contingent liabilities (i.e. insurance policies, guarantees and other contingent arrangements), outstanding commitments to borrowers and outstanding principal amounts owed by borrowers. The position against this limit, determined in accordance with the requirements of the Act, was \$1,657 million at March 31, 2018 (March 31, 2017 - \$3,020 million).

Note 2. Summary of Significant Accounting Policies

Loans Receivable

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

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

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

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

Translation of Foreign Currency

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

Note 3. Loans Receivable

| | Mar | | | Mar | | |
|--|---------------------|-------------------------|----------------|---------------------|-------------------------|----------------|
| | 2018 | | | 2017 | | |
| <i>(in millions of Canadian dollars)</i> | | | | | | |
| Fiscal | Concessional | Non-Concessional | Total | Concessional | Non-Concessional | Total |
| Past Due | - | 160 | 160 | - | 1,163 | 1,163 |
| 2017/18 | - | - | - | 33 | 276 | 309 |
| 2018/19 | 32 | 205 | 237 | 33 | 260 | 293 |
| 2019/20 | 32 | 405 | 437 | 33 | 267 | 300 |
| 2020/21 | 32 | 80 | 112 | 33 | 97 | 130 |
| 2021/22 | 32 | 23 | 55 | 33 | 27 | 60 |
| 2022/23 | 32 | 14 | 46 | 33 | 15 | 48 |
| 2023/24 | 32 | 15 | 47 | 34 | 15 | 49 |
| 2024/25 | 32 | 15 | 47 | 34 | 15 | 49 |
| 2025/26 and beyond | 375 | 33 | 408 | 388 | 34 | 422 |
| Total | \$599 | \$950 | \$1,549 | \$654 | \$2,169 | \$2,823 |

Note 4. Past Due Receivables

The following table provides a breakdown of principal, interest and fees in arrears at the end of the fiscal year. The decrease in past due principal, interest and fees is mainly due to the write-offs in the automotive industry.

| | Mar | | | Mar | | |
|--|-------------------|------------------|--------------|-------------------|------------------|----------------|
| | 2018 | | | 2017 | | |
| <i>(in millions of Canadian dollars)</i> | | | | | | |
| | Commercial | Sovereign | Total | Commercial | Sovereign | Total |
| Past due principal | 146 | 14 | 160 | 1,150 | 13 | 1,163 |
| Past due interest and fees | - | 177 | 177 | 928 | 167 | 1,095 |
| Total | \$146 | \$191 | \$337 | \$2,078 | \$180 | \$2,258 |

Note 5. Notes Receivable

Notes receivable represent promissory notes issued to borrowers in the automotive industry and were written off during the fiscal year.

Note 6. Canada Account Administrative Charges

Pursuant to Section 23(5) of the Act, the Corporation is authorized by the Minister of Finance to retain from any receipts and recoveries an amount, as the Minister of Finance considers to be required, to meet the expenses and overhead of the Corporation arising out of Canada Account transactions. In 2017-2018, \$3 million (2016-2017 – \$3 million) was retained to meet the general expenses and overhead of the Corporation arising out of Canada Account transactions. Additionally, Canada Account incurred \$3 million (2016-2017 - \$5 million) of other expenses, of which \$2 million (2016-2017 - \$5 million) were legal expenses.

Note 7. Canada Account Guarantees

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

Glossary of Financial Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sovereign Loans - Loans for which the financial and repayment risk is that of a sovereign government.