GROWING CANADIAN TRADE, RESPONSIBLY

EXPORT DEVELOPMENT CANADA

Quarterly Financial Report
June 30, 2020

Unaudited

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OVERVIEW

Export Development Canada (EDC) is Canada's export credit agency. Our mandate is to support and develop, directly or indirectly, Canada's export trade, and the capacity of Canada to engage in trade and respond to international business opportunities, as well as to provide development financing and other forms of development support in a manner consistent with Canada's international development priorities. We provide insurance and financial services, bonding products, small business solutions as well as online credit risk management tools. Our customers are Canadian exporters, investors and their international buyers. We place a particular emphasis on small and medium enterprises by developing tools to help them succeed in international markets. EDC is a Crown corporation, wholly owned by the Government of Canada and accountable to Parliament through the Minister of Small Business, Export Promotion and International Trade. We are financially self-sustaining and do not receive parliamentary appropriations; our revenue is generated primarily by collecting interest on our loans, fees on our guarantee products and premiums on our insurance products.

A number of measures were announced by the Government of Canada starting in March 2020 that will increase EDC's capacity to help Canadian companies facing extreme financial challenges brought on by the global response to Novel Coronavirus 2019 (COVID-19). These measures include the activation of the Business Credit Availability Program (BCAP) which is expected to increase business volumes in the commercial financing and insurance programs through our existing suite of financial solutions, and the expansion of our domestic capabilities to enable us to help Canada's financial institutions provide financing and credit solutions to Canadian businesses, helping even more companies raise the credit necessary to survive this unprecedented crisis. The Minister of Finance has also been temporarily provided with the flexibility to set EDC's capital and contingent liability limits as well as the Canada Account limit.

Economic Environment

With the COVID-19 pandemic continuing to spread throughout the world in the second quarter of 2020, the global economy was operating at a significantly depressed level. However, activity picked up towards the end of the quarter in several key economies, including China, the United States and the Eurozone as COVID-19 containment measures were eased and businesses began to reopen. This growth rebound follows historically unprecedented declines in GDP and employment during the lockdowns.

After decisive actions by central banks across the world to quickly lower interest rates and purchase record-levels of assets, global financial market conditions and commodity prices have improved substantially since April. Combined with significant direct fiscal transfers to consumers and businesses, confidence measures have started to improve as spending returns toward more normal levels.

Economic conditions vary across countries and regions. India, Russia, Latin America, and some African countries are still experiencing high infection rates, while countries in Asia, Europe and North America have loosened restrictions. Although several U.S. states took steps to reopen, COVID-19 cases spiked, causing some to reimpose measures to contain the virus.

China was one of the first economies to reopen and industrial production has rebounded strongly, registering year-over-year real GDP growth of 3.2% in the second quarter. In Canada, headline GDP growth is expected to be extremely negative in the second quarter. That said, the number of new COVID-19 cases has fallen sharply from its April high, and the economic recovery has begun in all provinces and across many sectors. Fiscal policy has provided significant support. The Bank of Canada has held its policy rate at 0.25% and signalled that interest rates are expected to stay low for years to come. Data on employment, auto sales and housing suggest the Canadian economy hit bottom in April, but grew in May and June. The second half of 2020 is expected to feature a gradual rebound, assuming COVID-19 cases remain contained, but the outlook remains highly uncertain.

Due to the challenging economic environment, EDC customers began to draw on their revolving credit facilities in order to preserve liquidity. Between the last half of March and June 30, $2.5 billion was drawn on revolving facilities contributing to the overall growth in our gross loans receivable position. We have provided additional support by deferring loan repayments, loan guarantee fees, and insurance premiums for numerous customers. Additionally, EDC's allowance for credit losses increased 226% to $3.3 billion in the first half of the year, with the largest increases being $696 million in the aerospace sector, $370 million in the information and communications technologies sector, $298 million in the mining sector, $268 million in the oil and gas sector and $204 million related to Sovereign obligors. We have established management overlays in both our loans and insurance portfolios to reflect the impact of economic challenges due to COVID-19 which are not reflected in current credit ratings. In order to calculate the overlays we looked at all sectors in our portfolios that would be negatively impacted by the current situation and applied a downgrade based on limited information available at the time the financial statements were prepared. As more information becomes available we are incorporating this into our credit ratings and removing the overlay if appropriate. As of the end of June we have reviewed 49% of obligors with an overlay and adjusted the credit rating and overlay accordingly.

Risk Management

Our business activities expose us to a wide variety of risks including strategic, financial and operational risks. We manage risk with a three lines of defence risk governance structure, which emphasizes and balances strong central oversight and control of risk with clear accountability for and ownership of risk within the "front lines". The structure supports the cascade of EDC's risk appetite throughout the organization and provides forums for risks to be appropriately considered, discussed, debated and factored into business decisions at all levels and across all functions. This structure will allow us to continue to manage our business as risks are elevated in the current economic environment and as we expand our risk appetite to help with the COVID-19 response. For a more comprehensive discussion on our risk management, please refer to pages 65-74 of our 2019 Annual Report. Refer to Note 7 of the accompanying financial statements for details on financial instrument risks.

Impact of Foreign Exchange Translation on Financial Results

Our foreign currency-denominated results are impacted by exchange rate fluctuations. The Canadian dollar relative to the U.S. dollar weakened in the second quarter of 2020, resulting in a rate of $0.74 at the end of the quarter compared to $0.77 at the end of the prior year. The impact of the weaker dollar was an increase to our assets and liabilities which are primarily denominated in U.S. dollars and are translated to Canadian dollars at rates prevailing at the statement of financial position date. In addition, the Canadian dollar average for the second quarter of 2020 weakened against the U.S. dollar. The Canadian dollar averaged $0.72 in the second quarter, compared to $0.75 for the second quarter of 2019. This had a favourable impact on our financial results, as the components of net income as well as our business facilitated are translated at the average exchange rates.

Business Facilitated

Financing and investments business facilitated decreased by 22% from the same period in 2019 primarily due to a 31% decrease in direct lending as a result of decreases in the oil and gas and mining sectors.

Business facilitated within our international trade guarantee insurance product group increased by 71% primarily due to increases in the financial services, oil and gas, mining and surface transportation sectors.

Business facilitated within our financial institutions insurance product group increased by 20% compared to the same period in 2019 primarily due to an increase in demand for the product by an existing policyholder.

Overall, BCAP support in the first half of 2020 totaled $3.0 billion, mainly in direct lending, of which 61% was in the aerospace sector. Our BCAP support includes $491 million in guarantees for small and medium-sized enterprises, which comprises 64% of total BCAP transactions.

Business Facilitated

	For the six months ended	
(in millions of Canadian dollars)	**Jun 2020**	Jun 2019
Business Facilitated		
Direct lending	**6,365**	9,288
Project finance	**2,901**	3,158
Loan guarantees	**1,200**	884
Investments	**127**	209
Total financing and investments	**10,593**	13,539
Credit insurance	**27,872**	29,422
Financial institutions insurance	**5,749**	4,773
International trade guarantee	**4,769**	2,790
Political risk insurance	**1,278**	1,687
Total insurance	**39,668**	38,672
Total	**$50,261**	$52,211

BCAP Support included in Business Facilitated

	For the six months ended June 30, 2020	
(in millions of Canadian dollars)	**Number of transaction**	**Business Facilitated**
BCAP Business Facilitated		
Direct lending	22	2,099
Loan guarantees*	244	279
BCAP Guarantees	128	213
Investments	6	10
Total financing and investments	400	2,601
Credit insurance	85	33
International trade guarantee	96	332
Total insurance	181	365
Total	581	$2,966

**Loan guarantees under our existing product suite.*

SUMMARY OF FINANCIAL RESULTS

Financial Performance

(in millions of Canadian dollars)	For the three months ended Jun **2020**	Jun 2019	For the six months ended Jun **2020**	Jun 2019	Jun 2020 Corporate Plan
Net financing and investment income	**305**	299	**607**	613	647
Net insurance premiums and guarantee fees[1]	**63**	65	**128**	129	134
Realized gains (losses)[2]	**31**	(10)	**74**	(11)	(2)
Net revenue	**399**	354	**809**	731	779
Administrative expenses	**132**	136	**258**	267	255
Provision for (reversal of) credit losses	**1,167**	(14)	**2,321**	10	402
Claims-related expenses (recovery)	**252**	(5)	**272**	52	100
Income (loss) before unrealized (gains) losses	**(1,152)**	237	**(2,042)**	402	22
Unrealized losses on financial instruments[2]	**280**	4	**304**	110	-
Net income (loss)	**(1,432)**	233	**(2,346)**	292	22
Other comprehensive income (loss)	**6**	(51)	**(114)**	5	16
Comprehensive income (loss)	**$(1,426)**	$182	**$(2,460)**	$297	$38

[1] Includes loan guarantee fees.
[2] Included in Other (Income) Expenses on the Condensed Consolidated Statement of Comprehensive Income.

Quarter Highlights

We had a **net loss** of $1.4 billion in the second quarter of 2020 compared to **net income** of $233 million for the same period in 2019 primarily due to increases in our loan provisioning requirements, claims-related expenses and unrealized losses on our financial instruments.

Net revenue was $399 million in the second quarter of 2020, an increase of $45 million from the same period in 2019 mainly due to realized gains within our marketable securities and investments portfolios.

The **provision for credit losses** of $1.2 billion in the second quarter of 2020 is primarily due to downward credit migration within our portfolio as a result of the current period of economic uncertainty related to the COVID-19 crisis. An increase in impaired loans and changes to estimated recoveries on existing impaired loans led to a $733 million charge in the quarter. The largest impacts were charges of $198 million for an existing impaired obligor in the mining sector, $156 million for a newly impaired obligor in the information and technology sector and $98 million for a newly impaired obligor in the oil and gas sector. Additionally, we had a $445 million provision charge, of which $341 million was in the aerospace sector, due to changes in the assumptions used to calculate the allowance for losses on loans.

Claims-related expenses were $252 million in the second quarter of 2020 mainly due an increase in the allowance for insurance claims as a result of the management overlay established to reflect the impact of COVID-19 on insurance liabilities as discussed on page 3.

We had **unrealized losses on financial instruments** of $280 million in the second quarter of 2020 largely due to the volatility associated with our financial instruments carried at fair value through profit or loss and the impact of the current economic environment on our investments portfolio.

Year to Date Highlights

Net loss for the first six months of 2020 was $2.3 billion mainly due to increased loan provisioning requirements, claims-related expenses and unrealized losses on financial instruments.

Net revenue was $809 million, an increase of $78 million from the same period in 2019 and $30 million when compared to Corporate Plan primarily due to realized gains within our marketable securities and investments portfolios.

We had **unrealized losses on financial instruments** of $304 million in the first six months of 2020 largely due to the volatility associated with our financial instruments carried at fair value through profit or loss. Due to the volatility and difficulty in estimating fair value gains or losses on financial instruments, a forecast for these items is not included in the Corporate Plan.

Claims-related expenses were $220 million higher than the same period in 2019 and $172 million higher than the Corporate Plan. The increase is mainly due to an increase in the allowance for insurance claims to reflect the impact of COVID-19 as previously discussed.

We recorded an **other comprehensive loss** of $114 million due to negative returns on plan assets as well as a decrease in the discount rates used to value our pension obligations.

Provision for credit losses was $2.3 billion, an increase from $10 million in the prior year period, mainly due to downward credit migration within our portfolio as a result of the current period of economic uncertainty related to the COVID-19 crisis. In the first quarter of 2020, the provision charge was $1.15 billion with the largest increases to the allowance in the information and communications technology sector, the oil and gas sector, the aerospace sector and the surface transportation sector. In the second quarter of 2020, we incurred a further $1.17 billion provision charge mainly due to an increase in impaired loans, changes to estimated recoveries on existing impaired loans and changes to the assumptions used in the calculation of the allowance for losses on loans as previously discussed.

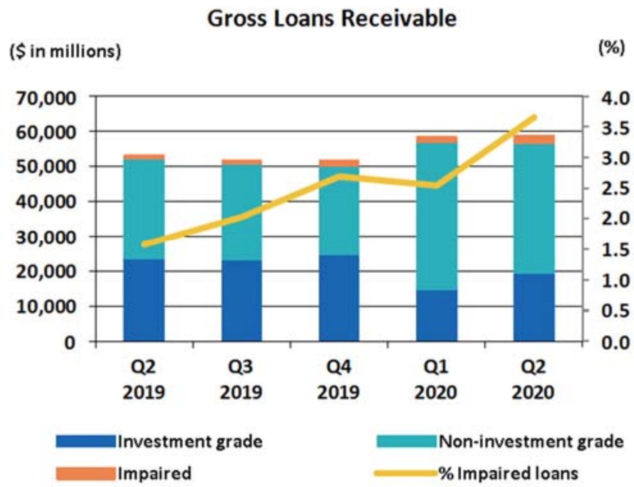
Activity within the provision for credit losses during the first and second quarter by industry was as follows:

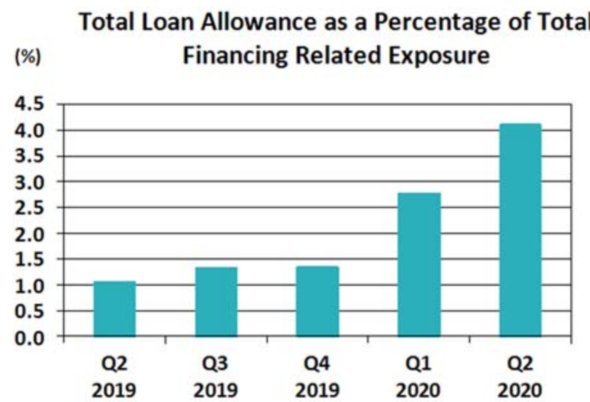
Provision for Credit Losses by Industry

	Three months ended March 2020			Three months ended June 2020		
(in millions of Canadian dollars)	Performing	Impaired	**Total**	Performing	Impaired	**Total**
Aerospace	239	3	**242**	369	85	**454**
Information and Communication Technologies	115	(1)	**114**	17	239	**256**
Mining	75	3	**78**	7	213	**220**
Oil and gas	250	-	**250**	(126)	144	**18**
Sovereign	5	-	**5**	199	-	**199**
Surface transportation	195	3	**198**	(14)	6	**(8)**
Other	266	1	**267**	(18)	46	**28**
Total	$1,145	$9	**$1,154**	$434	$733	**$1,167**

Financial Position

As at	**Jun**	Dec	Jun 2020
(in millions of Canadian dollars)	**2020**	2019	Corporate Plan
Total assets	**73,917**	64,572	68,920
Total liabilities	**64,954**	54,816	57,525
Equity	**8,963**	9,756	11,395
Gross loans receivable	**58,722**	51,601	56,977
Total allowances - loans portfolio	**3,330**	1,020	1,448
Total allowances - insurance portfolio	**480**	270	220





Total assets are $9.3 billion higher than December 2019 and $5.0 billion higher than the Corporate Plan primarily due to an increase in gross loans receivable as a result of net loan disbursements of $5.7 billion, a higher marketable securities balance held in anticipation of increased short-term cash requirements and foreign exchange translation. The $5.7 billion in net loan disbursements is partly attributable to increased draws on revolving credit facilities.

The increase in the loans portfolio allowance compared to December 2019 and the Corporate Plan is primarily due to the current period of economic uncertainty related to the COVID-19 crisis.

Impaired loans as a percentage of gross loans receivable have increased since the first quarter of 2020 largely due to the addition of two obligors in the information and communication technologies sector ($430 million) and one obligor in the oil and gas sector ($161 million).

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 June 30, 2020 and for the periods presented in the condensed consolidated quarterly financial statements.

Mairead Lavery,
President and CEO

Ken Kember,
Senior Vice-President & Chief Financial Officer

Ottawa, Canada
August 20, 2020

Export Development Canada

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in millions of Canadian dollars)

As at

	Notes	Jun 2020	Dec 2019
Assets			
Cash		**-**	176
Marketable securities		**14,599**	10,754
Derivative instruments		**1,385**	668
Loans receivable	2	**58,700**	51,565
Allowance for losses on loans	2	**(3,060)**	(930)
Investments		**1,618**	1,627
Reinsurers' share of premium and claims liabilities	3	**150**	120
Other assets		**258**	221
Retirement benefit assets		**-**	88
Property, plant and equipment		**42**	43
Intangible assets		**96**	108
Right-of-use assets		**129**	132
Total Assets		**$73,917**	$64,572
Liabilities and Equity			
Accounts payable and other credits		**480**	117
Loans payable		**60,604**	52,404
Derivative instruments		**2,374**	1,269
Lease liabilities		**156**	159
Retirement benefit obligations		**236**	210
Allowance for losses on loan commitments	2	**90**	10
Premium and claims liabilities	3	**760**	500
Loan guarantees	2	**254**	147
Total Liabilities		**64,954**	54,816
Financing commitments (Note 2) and contingent liabilities (Note 4)			
Equity			
Share capital	5	**3,000**	1,333
Retained earnings		**5,963**	8,423
Total Equity		**8,963**	9,756
Total Liabilities and Equity		**$73,917**	$64,572

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 August 20, 2020.

Robert S. McLeese
Director

Mairead Lavery
Director

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in millions of Canadian dollars)

		For the three months ended		For the six months ended	
	Notes	**Jun 2020**	Jun 2019	**Jun 2020**	Jun 2019
Financing and Investment Revenue:					
Loan		**486**	598	**1,004**	1,187
Marketable securities		**46**	65	**103**	134
Investments		**7**	1	**8**	2
Total financing and investment revenue		**539**	664	**1,115**	1,323
Interest expense		**225**	360	**493**	698
Financing related expenses		**9**	5	**15**	12
Net Financing and Investment Income		**305**	299	**607**	613
Loan Guarantee Fees		**11**	14	**24**	27
Insurance premiums and guarantee fees		**60**	60	**121**	121
Reinsurance ceded		**(8)**	(9)	**(17)**	(19)
Net Insurance Premiums and Guarantee Fees	8	**52**	51	**104**	102
Other (Income) Expenses	10	**249**	14	**230**	121
Administrative Expenses	11	**132**	136	**258**	267
Income (Loss) before Provision and Claims-Related Expenses		**(13)**	214	**247**	354
Provision for (Reversal of) Credit Losses	2	**1,167**	(14)	**2,321**	10
Claims-Related Expenses (Recovery)	9	**252**	(5)	**272**	52
Net Income (Loss)		**(1,432)**	233	**(2,346)**	292
Other comprehensive income (loss):					
Retirement benefit plans remeasurement		**6**	(51)	**(114)**	5
Comprehensive Income (Loss)		**$(1,426)**	$182	**($2,460)**	$297

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in millions of Canadian dollars)

		For the three months ended		For the six months ended	
	Notes	**Jun 2020**	Jun 2019	**Jun 2020**	Jun 2019
Share Capital	5	**3,000**	1,333	**3,000**	1,333
Retained Earnings					
Balance beginning of period		**7,389**	8,116	**8,423**	9,012
IFRS 16 transition adjustment		**-**	-	**-**	(1)
Revised balance beginning of period		**7,389**	8,116	**8,423**	9,011
Net income (loss)		**(1,432)**	233	**(2,346)**	292
Other comprehensive income (loss)					
Retirement benefit plans remeasurement		**6**	(51)	**(114)**	5
Dividend paid	5	**-**	-	**-**	(1,010)
Balance end of period		**5,963**	8,298	**5,963**	8,298
Total Equity End of Period		**$8,963**	$9,631	**$8,963**	$9,631

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions of Canadian dollars)

	For the three months ended		For the six months ended	
	Jun 2020	Jun 2019	**Jun 2020**	Jun 2019
Cash Flows from (used in) Operating Activities				
Net income (loss)	**(1,432)**	233	**(2,346)**	292
Adjustments to determine net cash flows from (used in) operating activities				
Provision for (reversal of) credit losses	**1,167**	(14)	**2,321**	10
Actuarial change in the net allowance for claims on insurance	**203**	(80)	**202**	(356)
Depreciation and amortization	**9**	10	**20**	20
Realized (gains) and losses	**(22)**	9	**(72)**	8
Changes in operating assets and liabilities				
Change in accrued interest and fees on loans receivable	**12**	18	**(44)**	(32)
Change in accrued interest and fair value of marketable securities	**7**	(125)	**(235)**	(191)
Change in accrued interest and fair value of loans payable	**113**	239	**569**	505
Change in fair value of investments	**151**	(57)	**189**	(70)
Change in derivative instruments	**257**	(95)	**71**	(298)
Other	**(152)**	151	**102**	29
Loan disbursements	**(6,930)**	(6,212)	**(15,219)**	(10,847)
Loan repayments and principal recoveries from loan asset sales	**5,243**	5,293	**9,517**	10,286
Net cash used in operating activities	**(1,374)**	(630)	**(4,925)**	(644)
Cash Flows from (used in) Investing Activities				
Disbursements for investments	**(99)**	(50)	**(202)**	(126)
Receipts from investments	**40**	29	**93**	64
Purchases of marketable securities	**(2,341)**	(2,423)	**(4,226)**	(4,506)
Sales/maturities of marketable securities	**2,094**	2,240	**4,697**	4,804
Purchases of property, plant and equipment	**-**	-	**(2)**	-
Purchases of intangible assets	**-**	(6)	**(1)**	(13)
Net cash from (used in) investing activities	**(306)**	(210)	**359**	223
Cash Flows from (used in) Financing Activities				
Issue of long-term loans payable	**5,152**	2,657	**11,362**	9,624
Repayment of long-term loans payable	**(1,403)**	(2,365)	**(7,205)**	(5,798)
Issue of short-term loans payable	**4,925**	9,434	**19,970**	13,024
Repayment of short-term loans payable	**(9,569)**	(9,344)	**(18,028)**	(15,962)
Disbursements from sale/maturity of derivative instruments	**(70)**	(234)	**(88)**	(314)
Receipts from sale/maturity of derivative instruments	**18**	1	**69**	1
Issue of share capital	**1,667**	-	**1,667**	-
Dividend paid	**-**	-	**-**	(1,010)
Net cash from (used in) financing activities	**720**	149	**7,747**	(435)
Effect of exchange rate changes on cash and cash equivalents	**(194)**	(19)	**29**	(76)
Net increase (decrease) in cash and cash equivalents	**(1,154)**	(710)	**3,210**	(932)
Cash and cash equivalents				
Beginning of period	**5,649**	2,724	**1,285**	2,946
End of period	**$4,495**	$2,014	**$4,495**	$2,014
Cash and cash equivalents are comprised of:				
Cash	**-**	200	**-**	200
Cash equivalents included within marketable securities	**4,495**	1,814	**4,495**	1,814
	$4,495	$2,014	**$4,495**	$2,014
Operating Cash Flows from Interest				
Cash paid for interest	**$222**	$341	**$525**	$720
Cash received for interest	**$513**	$651	**$998**	$1,206

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

Notes to the Condensed Consolidated Financial Statements

1. Significant Accounting Policies

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.

Except as indicated below, these condensed interim consolidated financial statements follow the same accounting policies and methods of computation as our audited consolidated financial statements for the year ended December 31, 2019. They should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2019 and the accompanying notes as set out on pages 91-141 of our 2019 Annual Report.

Basis of Consolidation

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

Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations adopted during the year

The following standards issued by the IASB were adopted during the year:

IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors - In October 2018, the IASB issued amendments to IAS 1 and IAS 8 regarding the definition of materiality. The amendments clarify the definition of material, explain how the definition should be applied and improve the explanations accompanying the definition. The amendments also ensure that the definition is consistent across all IFRS standards. The amendments were adopted on January 1, 2020 with no changes to the consolidated financial statements.

The Conceptual Framework for Financial Reporting - In March 2018, the IASB issued the revised Conceptual Framework, which sets out the fundamental concepts for financial reporting to ensure consistency in standard setting decisions and that similar transactions are treated in a similar way, in order to provide useful information to users of financial statements. The Conceptual Framework, which did not result in any change to the consolidated financial statements, was adopted on January 1, 2020.

(b) New standards, amendments and interpretations issued but not yet in effect

In May 2020, the IASB issued *Covid-19 Related Rent Concessions (Amendment to IFRS 16)* which provides a practical expedient in assessing whether a Covid-19 related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after June 1, 2020 and we do not anticipate a significant impact to the consolidated financial statements.

Use of Estimates and Key Judgments

The preparation of financial statements requires the use of estimates and key judgments. Judgment is required in the selection of accounting policies, and their application requires the use of estimates and assumptions to arrive at the reported carrying values of our assets and liabilities. Areas where management has made use of significant estimates and exercised judgment include the allowance for credit losses, assets held for sale, premium and claims liabilities, retirement benefit plans and financial instruments measured at fair value. Refer to page 94 of our 2019 Annual Report for details.

2. Loans and Allowance for Credit Losses

Loans Receivable

(in millions of Canadian dollars)	**Jun 2020**	Dec 2019
Gross loans receivable	**58,722**	51,601
Accrued interest and fees receivable	**248**	242
Deferred loan revenue and other	**(270)**	(278)
Total loans receivable	**$58,700**	$51,565

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

(in millions of Canadian dollars)	**2020**	2019
Balance at January 1	**51,601**	54,609
Disbursements	**15,219**	10,847
Principal repayments	**(9,517)**	(10,286)
Loans written off	**(7)**	(58)
Capitalized interest	**11**	5
Foreign exchange translation	**1,415**	(2,106)
Balance at June 30	**$58,722**	$53,011

Exposure and Allowance by Credit Grade

				Jun 2020		Dec 2019	
	Non-credit-impaired		**Credit-impaired**				
(in millions of Canadian dollars)	**Stage 1**	**Stage 2**	**Stage 3**	**$**	**% of total**	$	% of total
Gross loans receivable							
Investment grade*	**12,455**	**6,993**	**-**	**19,448**	**33%**	24,740	48%
Non-investment grade	**11,311**	**25,815**	**-**	**37,126**	**63%**	25,415	49%
Individually impaired	**-**	**-**	**2,148**	**2,148**	**4%**	1,390	3%
Originated credit-impaired	**-**	**-**	**-**	**-**	**-**	56	-
Gross loans receivable	**23,766**	**32,808**	**2,148**	**58,722**	**100%**	51,601	100%
Allowance for losses	**219**	**1,573**	**1,268**	**3,060**		930	
Net carrying value - loans receivable	**$23,547**	**$31,235**	**$880**	**$55,662**		$50,671	
Loan commitments							
Investment grade*	**3,964**	**1,183**	**-**	**5,147**	**34%**	10,758	60%
Non-investment grade	**3,167**	**6,524**	**-**	**9,691**	**65%**	7,134	40%
Individually impaired	**-**	**-**	**95**	**95**	**1%**	73	-
Total loan commitments	**$7,131**	**$7,707**	**$95**	**$14,933**	**100%**	$17,965	100%
Allowance for losses	**3**	**71**	**16**	**90**		10	
Loan guarantees							
Investment grade*	**176**	**422**	**-**	**598**	**15%**	584	16%
Non-investment grade	**1,792**	**1,451**	**-**	**3,243**	**82%**	2,893	82%
Individually impaired	**-**	**-**	**108**	**108**	**3%**	75	2%
Total loan guarantees	**$1,968**	**$1,873**	**$108**	**$3,949**	**100%**	$3,552	100%
Allowance for losses	**34**	**74**	**72**	**180**		80	

**Investment grade exposure represents obligors with credit ratings of BBB- and above, as determined based on our internal credit risk rating methodology. Exposures are presented before the effects of any risk-mitigation strategies.*

Allowance for Losses

Changes to the allowance for losses on loans receivable, loan commitments and loan guarantees as at and for the three months ended June 30 were as follows:

(in millions of Canadian dollars)	**Stage 1**	**Stage 2**	**Stage 3**	**Jun 2020 Total**	Stage 1	Stage 2	Stage 3	Jun 2019 Total
Allowance for losses on loans receivable								
Balance beginning of period	**131**	**1,365**	**514**	**2,010**	97	311	362	770
Provision for (reversal of) credit losses								
Transfer to stage 1	**132**	**(132)**	**-**	**-**	27	(27)	-	-
Transfer to stage 2	**(36)**	**39**	**(3)**	**-**	-	2	(2)	-
Transfer to stage 3	**-**	**(87)**	**87**	**-**	-	(2)	2	-
Remeasurements	**(63)**	**421**	**703**	**1,061**	(35)	30	4	(1)
New originations	**63**	**50**	**6**	**119**	14	2	5	21
Net repayments and maturities	**(5)**	**(54)**	**(9)**	**(68)**	(6)	(9)	(1)	(16)
Total provision for (reversal of) credit losses	**91**	**237**	**784**	**1,112**	-	(4)	8	4
Write-offs	**-**	**-**	**(3)**	**(3)**	-	-	(1)	(1)
Foreign exchange translation	**(3)**	**(29)**	**(27)**	**(59)**	(2)	(4)	(7)	(13)
Balance end of period	**219**	**1,573**	**1,268**	**3,060**	95	303	362	760
Allowance for losses on loan commitments								
Balance beginning of period	**7**	**63**	**-**	**70**	9	5	16	30
Provision for (reversal of) credit losses								
Transfer to stage 1	**8**	**(8)**	**-**	**-**	-	-	-	-
Transfer to stage 2	**(5)**	**5**	**-**	**-**	-	-	-	-
Remeasurements	**(9)**	**13**	**47**	**51**	(4)	2	-	(2)
New originations	**2**	**-**	**-**	**2**	3	-	-	3
Net repayments and maturities	**-**	**-**	**(31)**	**(31)**	-	-	-	-
Total provision for (reversal of) credit losses	**(4)**	**10**	**16**	**22**	(1)	2	-	1
Foreign exchange translation	**-**	**(2)**	**-**	**(2)**	-	-	(1)	(1)
Balance end of period	**3**	**71**	**16**	**90**	8	7	15	30
Allowance for losses on loan guarantees								
Balance beginning of period	**20**	**76**	**54**	**150**	10	19	51	80
Provision for (reversal of) credit losses								
Transfer to stage 1	**10**	**(10)**	**-**	**-**	19	(19)	-	-
Transfer to stage 2	**(22)**	**22**	**-**	**-**	-	-	-	-
Transfer to stage 3	**-**	**(1)**	**1**	**-**	-	-	-	-
Remeasurements	**(12)**	**(6)**	**27**	**9**	(24)	(2)	10	(16)
New originations	**47**	**-**	**-**	**47**	8	-	-	8
Net repayments and maturities	**(9)**	**(4)**	**(10)**	**(23)**	(1)	3	(13)	(11)
Total provision for (reversal of) credit losses	**14**	**1**	**18**	**33**	2	(18)	(3)	(19)
Foreign exchange translation	**-**	**(3)**	**-**	**(3)**	-	-	(1)	(1)
Balance end of period	**34**	**74**	**72**	**180**	12	1	47	60
Total allowance for losses on loans receivable, loan commitments and loan guarantees	**$256**	**$1,718**	**$1,356**	**$3,330**	$115	$311	$424	$850

Changes to the allowance for losses on loans receivable, loan commitments and loan guarantees as at and for the six months ended June 30 were as follows:

(in millions of Canadian dollars)	**Stage 1**	**Stage 2**	**Stage 3**	**Jun 2020 Total**	Stage 1	Stage 2	Stage 3	Jun 2019 Total
Allowance for losses on loans receivable								
Balance beginning of period	**156**	**294**	**480**	**930**	110	353	357	820
Provision for (reversal of) credit losses								
Transfer to stage 1	**134**	**(134)**	**-**	**-**	34	(34)	-	-
Transfer to stage 2	**(146)**	**149**	**(3)**	**-**	(3)	5	(2)	-
Transfer to stage 3	**-**	**(87)**	**87**	**-**	-	(10)	10	-
Remeasurements	**-**	**1,284**	**717**	**2,001**	(50)	9	59	18
New originations	**79**	**111**	**13**	**203**	20	2	5	27
Net repayments and maturities	**(8)**	**(38)**	**(18)**	**(64)**	(12)	(15)	(1)	(28)
Total provision for (reversal of) credit losses	**59**	**1,285**	**796**	**2,140**	(11)	(43)	71	17
Write-offs	**-**	**-**	**(6)**	**(6)**	-	4	(51)	(47)
Foreign exchange translation	**4**	**(6)**	**(2)**	**(4)**	(4)	(11)	(15)	(30)
Balance end of period	**219**	**1,573**	**1,268**	**3,060**	95	303	362	760
Allowance for losses on loan commitments								
Balance beginning of period	**9**	**-**	**1**	**10**	8	12	-	20
Provision for (reversal of) credit losses								
Transfer to stage 1	**8**	**(8)**	**-**	**-**	1	(1)	-	-
Transfer to stage 2	**(13)**	**13**	**-**	**-**	-	-	-	-
Remeasurements	**(8)**	**67**	**48**	**107**	(5)	(3)	16	8
New originations	**7**	**-**	**-**	**7**	4	-	-	4
Net repayments and maturities	**-**	**-**	**(33)**	**(33)**	-	(1)	-	(1)
Total provision for (reversal of) credit losses	**(6)**	**72**	**15**	**81**	-	(5)	16	11
Foreign exchange translation	**-**	**(1)**	**-**	**(1)**	-	-	(1)	(1)
Balance end of period	**3**	**71**	**16**	**90**	8	7	15	30
Allowance for losses on loan guarantees								
Balance beginning of period	**19**	**7**	**54**	**80**	11	24	45	80
Provision for (reversal of) credit losses								
Transfer to stage 1	**13**	**(13)**	**-**	**-**	22	(22)	-	-
Transfer to stage 2	**(37)**	**37**	**-**	**-**	(1)	1	-	-
Transfer to stage 3	**-**	**(1)**	**1**	**-**	-	-	-	-
Remeasurements	**(11)**	**60**	**37**	**86**	(32)	(3)	22	(13)
New originations	**56**	**4**	**-**	**60**	13	-	-	13
Net repayments and maturities	**(6)**	**(18)**	**(22)**	**(46)**	(1)	2	(19)	(18)
Total provision for (reversal of) credit losses	**15**	**69**	**16**	**100**	1	(22)	3	(18)
Foreign exchange translation	**-**	**(2)**	**2**	**-**	-	(1)	(1)	(2)
Balance end of period	**34**	**74**	**72**	**180**	12	1	47	60
Total allowance for losses on loans receivable, loan commitments and loan guarantees	**$256**	**$1,718**	**$1,356**	**$3,330**	$115	$311	$424	$850

Financing Commitments

The following table shows our outstanding financing commitments by type:

(in millions of Canadian dollars)	**Jun 2020**	Dec 2019
Signed loan commitments	**14,933**	17,965
Letters of offer	**3,470**	3,320
Unallocated confirmed lines of credit	**142**	158
Total financing commitments	**$18,545**	$21,443

3. Premium and Claims Liabilities

The premium and claims liabilities for our credit insurance, financial institutions insurance, international trade guarantee and political risk insurance product groups were as follows:

(in millions of Canadian dollars)			**Jun 2020**			Dec 2019
	Insurance	**Reinsurance**	**Net liabilities**	Insurance	Reinsurance	Net liabilities
Credit insurance	**360**	**(20)**	**340**	230	(10)	220
Financial institutions insurance	**10**	**-**	**10**	10	-	10
International trade guarantee	**150**	**(20)**	**130**	60	-	60
Political risk insurance	**240**	**(110)**	**130**	200	(110)	90
Total	**$760**	**$(150)**	**$610**	$500	$(120)	$380

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

(in millions of Canadian dollars)	**Jun 2020**	Dec 2019
Deferred insurance premiums	**160**	140
Allowance for claims on insurance	**600**	360
Total premium and claims liabilities	**760**	500
Reinsurers' share of allowance for claims on insurance	**(120)**	(90)
Prepaid reinsurance	**(30)**	(30)
Reinsurers' share of premium and claims liabilities	**(150)**	(120)
Net premium and claims liabilities	**$610**	$380

4. Contingent Liabilities

As explained on page 92 of the 2019 Annual Report, we are subject to a limit imposed by the Export Development Act on our contingent liability arrangements. In the first quarter of 2020, the limit was increased from $45.0 billion to $90.0 billion. Our position against this limit is $32.0 billion as at June 30, 2020 (December 2019 - $27.2 billion).

5. Equity

EDC's authorized share capital was increased on May 14, 2020 to $15.0 billion consisting of 150 million shares from $6.0 billion consisting of 60 million shares. Shares have a par value of $100 each. During the quarter, EDC received a $1.7 billion injection of new capital in exchange for 16.7 million shares with a par value of $100 each. As at June 30, 2020, the number of shares issued and fully paid is 30.0 million (2019 – 13.3 million).

No dividend was paid to the Government of Canada in 2020 (2019 – $1,010 million).

6. Fair Value of Financial Instruments

Fair value represents our estimation of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For a full description of our controls, policies and valuation techniques surrounding fair value of financial instruments refer to Note 20 on page 125 of the 2019 Annual Report.

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

In the process of assessing the fair value for certain investment instruments, estimates determined in a manner consistent with industry practice are employed in the models which cannot be directly observed in the market. The methodologies and values derived from these models were relatively unchanged at the end of the second quarter of 2020 from what was disclosed in the 2019 Annual Report, except in the case of our investments portfolio where we specifically considered impacts of the economic uncertainty related to the COVID-19 crisis in our measurement of fair value.

Fair Value Hierarchy

The following table presents the fair value hierarchy of our financial instruments based on whether the inputs to those techniques are observable or unobservable.

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

(in millions of Canadian dollars)					**Jun 2020**					Dec 2019
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**	**Carrying Value**	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
Assets										
Performing fixed rate loans	**-**	**12,672**	**1,571**	**14,243**	**14,096**	-	14,117	72	14,189	14,038
Performing floating rate loans	**-**	**38,205**	**1,133**	**39,338**	**40,674**	-	35,512	738	36,250	35,760
Total performing loans receivable	**-**	**50,877**	**2,704**	**53,581**	**54,770**	-	49,629	810	50,439	49,798
Impaired loans	**-**	**870**	**-**	**870**	**870**	-	838	-	838	838
Loans receivable and accrued interest and fees	**-**	**51,747**	**2,704**	**54,451**	**55,640**	-	50,467	810	51,277	50,636
Marketable securities	**6,290**	**8,309**	**-**	**14,599**	**14,599**	6,562	4,192	-	10,754	10,754
Derivative instruments	**-**	**1,385**	**-**	**1,385**	**1,385**	-	668	-	668	668
Investments	**2**	**-**	**1,616**	**1,618**	**1,618**	5	-	1,622	1,627	1,627
Other assets	**204**	**20**	**30**	**254**	**258**	170	23	25	218	221
Liabilities										
Accounts payable and other credits	**460**	**19**	**-**	**479**	**480**	98	22	-	120	117
Loans payable	**-**	**60,748**	**-**	**60,748**	**60,604**	-	52,422	-	52,422	52,404
Derivative instruments	**-**	**2,374**	**-**	**2,374**	**2,374**	-	1,269	-	1,269	1,269
Loan guarantees	**-**	**224**	**-**	**224**	**254**	-	113	-	113	147

Changes in valuation methods may result in transfers into or out of Levels 1, 2 and 3. In the first six months of 2020, there were no transfers between levels.

The following table summarizes the reconciliation of Level 3 fair values between the beginning of the year and the end of the second quarter of 2020 for the financial instruments carried at fair value:

(in millions of Canadian dollars)			**Jun 2020**
	Other Assets	**Investments**	**Total**
Balance beginning of year	**25**	**1,622**	**1,647**
Increase in other assets	**3**	**-**	**3**
Unrealized gains (losses) included in other (income) expenses	**-**	**(187)**	**(187)**
Purchases of assets/issuances of liabilities	**-**	**202**	**202**
Return of capital	**-**	**(63)**	**(63)**
Foreign exchange translation	**2**	**42**	**44**
Balance end of period	**$30**	**$1,616**	**$1,646**
Total gains (losses) for the first six months of 2020 included in comprehensive income for instruments held at the end of the quarter	**$3**	**$(156)**	**$(153)**

7. Financial Instrument Risks

The principal risks that we are exposed to as a result of holding financial instruments are credit, market and liquidity risk. For a full description of our objectives, policies and processes for managing financial instrument risk refer to management's discussion and analysis on pages 68 to 73 and notes related to our derivative instruments and debt instruments on pages 114 to 116 of the 2019 Annual Report.

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 loans program and our treasury activities.

Concentration of Credit Risk

The following table provides a breakdown, by the country in which the risk resides, of the maximum exposure to credit risk of financial instruments. The exposure includes gross loans receivable, loan guarantees, investments, marketable securities, derivative assets and cash. The concentration of credit risk exposure provided below also includes the impact of unfunded loan participations and loan default insurance, which we use to mitigate credit risk within the loan portfolio.

(in millions of Canadian dollars)		**Jun 2020 Exposure**		Dec 2019 Exposure
Country	**$**	**%**	$	%
United States	**19,835**	**25**	18,310	27
Canada	**14,742**	**18**	9,265	14
United Kingdom	**6,345**	**8**	5,315	8
Chile	**4,339**	**5**	3,440	4
India	**3,938**	**5**	3,921	6
Other	**31,074**	**39**	28,127	41
Total	**$80,273**	**100**	$68,378	100

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

(in millions of Canadian dollars)		**Jun 2020 Exposure**		Dec 2019 Exposure
Industry	**$**	**%**	$	%
Commercial:				
Aerospace	**11,425**	**14**	9,824	14
Financial institutions	**11,177**	**14**	6,839	10
Surface transportation	**8,666**	**11**	6,766	10
Oil and gas	**7,914**	**10**	7,752	11
Infrastructure and environment	**7,692**	**10**	7,175	10
Mining	**6,949**	**9**	6,181	9
Information and communication technologies	**6,584**	**8**	5,939	9
Other	**8,095**	**9**	7,198	11
Total commercial	**68,502**	**85**	57,674	84
Sovereign	**11,771**	**15**	10,704	16
Total	**$80,273**	**100**	$68,378	100

8. Net Insurance Premiums and Guarantee Fees

The following table presents our net insurance premiums and guarantee fee revenue for our credit insurance, financial institutions insurance, international trade guarantee and political risk insurance product groups:

	Three months ended					
(in millions of Canadian dollars)			**Jun 2020**			Jun 2019
	Gross premiums	**Reinsurance**	**Net premiums**	Gross premiums	Reinsurance	Net premiums
Credit insurance	**27**	**(3)**	**24**	29	(3)	26
Financial institutions insurance	**4**	**-**	**4**	3	-	3
International trade guarantee	**24**	**(2)**	**22**	22	(3)	19
Political risk insurance	**5**	**(3)**	**2**	6	(3)	3
Total	**$60**	**$(8)**	**$52**	$60	$(9)	$51

	Six months ended					
(in millions of Canadian dollars)			**Jun 2020**			Jun 2019
	Gross premiums	**Reinsurance**	**Net premiums**	Gross premiums	Reinsurance	Net premiums
Credit insurance	**56**	**(6)**	**50**	57	(6)	51
Financial institutions insurance	**6**	**-**	**6**	6	-	6
International trade guarantee	**49**	**(5)**	**44**	46	(6)	40
Political risk insurance	**10**	**(6)**	**4**	12	(7)	5
Total	**$121**	**$(17)**	**$104**	$121	$(19)	$102

9. Claims-Related Expenses (Recovery)

	Three months ended		Six months ended	
(in millions of Canadian dollars)	**Jun 2020**	Jun 2019	**Jun 2020**	Jun 2019
Claims paid	**66**	71	**86**	408
Claims recovered	**(13)**	(2)	**(15)**	(9)
Increase (decrease) in net allowance for claims on insurance	**203**	(80)	**202**	(356)
(Increase) decrease in recoverable insurance claims	**(5)**	6	**(3)**	8
Claims handling expenses	**1**	-	**2**	1
Total claims-related expenses (recovery)	**$252**	$(5)	**$272**	$52

10. Other (Income) Expenses

	Three months ended		Six months ended	
	Jun	Jun	**Jun**	Jun
(in millions of Canadian dollars)	**2020**	2019	**2020**	2019
Net realized and unrealized (gain) loss on loans payable	**99**	255	**553**	506
Net realized and unrealized (gain) loss on derivatives	**24**	(80)	**(189)**	(152)
Net realized and unrealized (gain) loss on marketable securities	**4**	(109)	**(270)**	(169)
Net realized and unrealized (gain) loss on investments	**143**	(50)	**159**	(67)
Foreign exchange translation (gain) loss	**(12)**	1	**(4)**	3
Other	**(9)**	(3)	**(19)**	-
Total other (income) expenses	**$249**	$14	**$230**	$121

11. Administrative Expenses

	Three months ended		Six months ended	
	Jun	Jun	**Jun**	Jun
(in millions of Canadian dollars)	**2020**	2019	**2020**	2019
Salaries and benefits	**66**	67	**134**	133
Pension benefit expense	**10**	8	**21**	16
Other post-employment benefit and severance expense	**3**	3	**7**	6
Professional services	**16**	12	**22**	21
Systems costs	**12**	13	**22**	23
Amortization and depreciation	**8**	8	**17**	16
Occupancy	**7**	5	**13**	12
Marketing and communications	**4**	9	**9**	17
Travel, hospitality and conferences	**-**	4	**2**	6
Other	**6**	7	**11**	17
Total administrative expenses	**$132**	$136	**$258**	$267

12. 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 and our Pension Plan in the normal course of business, under terms and conditions similar to those that apply to unrelated parties.

EDC'S MANDATE

Support and develop, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade, as well as respond to international business opportunities.

EDC

Canada