APM SPEECH

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Hello, my name is Ken Kember, and I'm EDC's Chief Financial Officer. I'm happy to share with you today some highlights from EDC's 2019 financial results. However, I have to say that 2019 feels like a long time ago now – pre-covid-19 – so a whole different era!

In addition to sharing our 2019 results, I think it will be helpful to speak to our current activities as well, and how those are affecting our 2020 financial results.

Let's start with 2019. We finished the year with a net income of $462 million. This is quite a bit lower than our Corporate Plan, and there are two reasons for that:

One - We had higher provision charges on our loan portfolio; and

Two - We had unrealized losses on some of our financial instruments

Let me explain a bit more about both items:

First – the higher loan provisions. EDC has a $52 billion loan portfolio. We set up a loan allowance to reflect the potential losses we might anticipate in our loan portfolio. Each year we increase or decrease that allowance depending on what's happening in our portfolio. If some of our borrowers get downgraded, or have trouble repaying their loans, then we need to increase the allowance – which is what happened in 2019. Other years we have seen the credit quality of our borrowers improve, and so we reduce the allowance. It's important to remember that it is an estimate and it can move around quite a bit as economic conditions change.

And now, in June 2020, we are seeing pretty drastic changes in economic conditions with the fallout from COVID-19. Whole industries have been shut down, job losses are soaring, and governments around the world are responding with unprecedented levels of stimulus spending. We have booked large provisions in Q1, and expect we'll see more as the year unfolds.

The second reason for lower net income in 2019 is unrealized losses on financial instruments. As a financial institution, we deal in financial products – loans, insurance policies, guarantees, and we also fund ourselves with financial instruments, including commercial paper, bonds, swaps and so on. Some of these products need to be adjusted to fair value every month, and those changes in fair value can generate gains or, in this case, losses. The important thing to know is that we aren't planning to sell them, so we won't actually lose this money.

Again, now in June 2020, we are seeing lots of changes in interest rates and foreign exchange rates and so I expect we'll continue to see volatility in the market values of our financial instruments throughout 2020.

Despite these fluctuations in some of our income statement items, overall EDC is well-positioned. We have a strong balance sheet with $9.8 billion of capital supporting a portfolio that has a capital requirement of $5.1 billion, so we began 2020 with a capital surplus of $4.7 billion. Under our capital adequacy policy, we pay out any excess capital to our shareholder, the Government of Canada, over a five-year period, so we had planned on paying a dividend of $930 million in the first quarter of 2020.

But, as a result of the pandemic and the emerging need to support Canadian businesses during the economic shutdown, our shareholder asked us not to pay this dividend and instead injected $1.7 billion of additional share capital into EDC in early April. The government also increased EDC's short-term borrowing limit from USD 14 billion to 20 billion, allowing us to increase our liquidity holdings. These steps have bolstered EDC's capacity to provide urgently needed credit to Canadian companies that are contending with this unprecedented crisis.

In our 75-year history, EDC has faced many challenging times: the Latin American debt crisis of the 1980s, the emerging market debt crisis of the late 1990s, the dot-com crash, 9/11, and the great financial crisis of 2008/9. Each time, EDC has stepped up to help support Canadian companies through the turmoil. Each time, loan loss provisions have spiked, our income has fallen, and capital requirements have increased. And – every time – we've emerged on the other side.

This current crisis will test EDC and indeed all of government and all Canadian businesses. It is unclear how things will unfold over the next weeks and months. But what remains clear is our focus on serving Canadian businesses to the very best of our abilities. I'm proud to be part of this organization serving Canada during difficult times.

In closing, let me thank you for watching and I invite you to share any feedback or questions with us online.