

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) should be read in conjunction with our audited Consolidated Financial Statements and related notes for the year ended December 31, 2018.

EDC adopted the impairment requirements as per *IFRS 9 – Financial Instruments* (IFRS 9) effective January 1, 2018. This adoption resulted in an increase to the opening retained earnings of \$400 million, consistent with our expectations. We did not restate the prior periods, as permitted by the Standard. Accordingly, the current year results are based on IFRS 9, while 2017 results are based on *IAS 39 – Financial Instruments: Recognition and Measurement* (IAS 39). For this reason, the allowance and provision for credit losses are not directly comparable. Further disclosure on the transition to the impairment requirements as per IFRS 9 is provided in Note 2 of the Consolidated Financial Statements.

All amounts are expressed in Canadian dollars.

Caution regarding forward-looking statements

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

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ECONOMIC OVERVIEW

After two years of accelerating global growth and strengthening international trade, the world economy recorded a solid performance in 2018, with global GDP growth tracking at 3.7% according to the International Monetary Fund. However, economic momentum slowed in the second half of the year as trade policy uncertainty was elevated, financial markets experienced increased volatility, and leading indicators softened in key economies such as China.

Among advanced economies, the United States was a growth leader. U.S. real GDP growth picked up in 2018, running at 2.9% at the end of the year, supported by sustained job growth, tax reductions, and other fiscal stimulus. In this context, the Federal Reserve raised its key policy interest rate four times last year as it continued to normalize financial conditions – ending the year with a federal funds target window of 2.25% to 2.50%.

With rising interest rates in the U.S. and a general appreciation of the U.S. dollar, select emerging markets saw their currencies depreciate rapidly as financial markets re-priced risk in the middle of the year. This occurred particularly in countries facing difficulties, such as Argentina, Turkey and Venezuela.

After upside surprises in 2017, European growth slowed in 2018, related in part to trade uncertainty and geopolitical tensions in Italy and France. The United Kingdom's formal exit from the European Union remains a key source of uncertainty in 2019. At the same time, Europe's growth performance was sufficiently strong for the European Central Bank to end its unconventional monetary support via quantitative easing, although as of the end of the year, it had yet to raise interest rates.

Notwithstanding several tariff tensions between major economies, there were also some positive trade policy developments for Canadian exporters with the signing of the Canada-United States-Mexico Agreement (CUSMA) on November 30th, which brought relief by reducing elevated uncertainty about North American trading rules. At the end of 2018, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) entered force for 6 of 11 countries, including Canada, which will increase preferential market access in the Asia-Pacific region.

Canada's economy grew by 2.1% in 2018, slightly above its longer-run potential pace, as the labour market continued to tighten. The Bank of Canada raised its policy rate three times to reach 1.75% by year's end. Strong international demand for Canadian goods and services helped carry Canada's economy through a turbulent year, resulting in Canada's exports being on pace for 6% growth in nominal terms. Although the Canadian dollar depreciated relative to the U.S. dollar over the course of 2018, the annual average of \$0.77 per USD was largely unchanged from 2017. Toward the end of 2018, Canada's energy exports were challenged by a historic widening of the price differential between Canadian and North American benchmark prices, which led the Government of Alberta to announce production curtailments to reduce high inventories and stabilize Canadian oil prices.

FINANCIAL RESULTS OVERVIEW

Our net income for the year was \$830 million, a decrease of \$167 million when compared with 2017.

for the year ended December 31 (in millions of Canadian dollars)	2018	2017
Net financing and investment income	1,221	1,257
Net insurance premiums and guarantee fees ⁽¹⁾	252	243
Realized losses ⁽²⁾	(5)	(22)
	1,468	1,478
Administrative expenses	497	431
Reversal of provision for credit losses ⁽³⁾	(11)	(119)
Claims-related expenses	255	157
Income before unrealized (gains) losses	727	1,009
Unrealized (gains) losses on financial instruments ⁽²⁾	(103)	12
Net income	\$ 830	\$ 997

⁽¹⁾ Includes loan guarantee fees.

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

⁽³⁾ Current year amounts have been prepared in accordance with IFRS 9. Prior year amounts have not been restated and are prepared in accordance with IAS 39.

Items of note were as follows:

Claims-related expenses increased by \$98 million compared to the prior year mainly due to the change in the net allowance for claims as a result of higher claims in our political risk insurance product group.

Reversal of provision for credit losses of \$11 million in 2018 compared to \$119 million in 2017. In 2017, the reversal of provision was due primarily to updates to our models used to generate the loss given default assumptions used in the allowance calculation.

Administrative expenses were \$66 million higher than the prior year mainly due to investments made to update our technology and digital platforms as well as our enterprise risk management systems.

Unrealized gains on financial instruments increased by \$115 million when compared to 2017 due to strong performance in our investments portfolio.

Impact of Foreign Exchange Translation on Financial Results

The Canadian dollar relative to the U.S. dollar weakened in 2018 resulting in a rate of \$0.73 at the end of the year compared to \$0.80 at the end of 2017. The impact of the weaker dollar was an increase in 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. Our business facilitated and the components of net income are translated into Canadian dollars at average exchange rates. The Canadian dollar average rate remained unchanged at \$0.77 against the U.S. dollar in 2018.

FINANCIAL PERFORMANCE

Net Financing and Investment Income

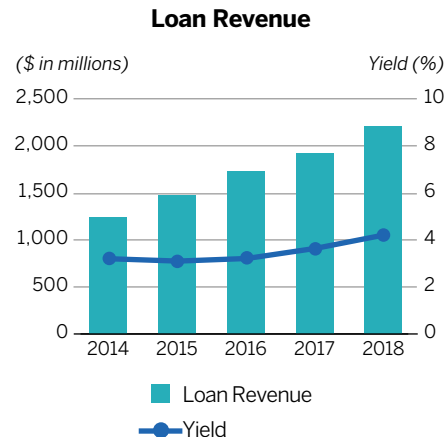
Loan Revenue

Loan revenue was \$2,207 million in 2018, an increase of \$292 million from 2017. The total yield on our loan portfolio, including loan fees and impaired interest revenue, was 4.20%, an increase of 57 basis points compared to the previous year.

Performing loan interest revenue was \$1,997 million in 2018, an increase of \$285 million compared to 2017, primarily due to increases in U.S. interest rates as the majority of our loans are denominated in U.S. dollars.

Components of the change in loan revenue from 2017

<i>(in millions of Canadian dollars)</i>	2018
Increase in revenue from higher yield	297
Decrease in portfolio size	(11)
Foreign exchange impact	(1)
Increase in performing loan interest revenue	285
Increase in loan fee revenue	5
Other increases	2
Net change in loan revenue	\$ 292



Yields on our floating rate portfolio increased to 3.94% in 2018 from 3.17% in 2017. Reference rates on our floating rate portfolio increased throughout 2018, contributing to the overall increase in floating rate loan revenue and the higher yield. Our fixed rate portfolio yields decreased to 3.51% from 3.61% due to repayments on older loans with an average yield of 3.97% being replaced by new loans with an average yield of 3.50%. The overall yield on our performing loan portfolio increased by 56 basis points to 3.83%.

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

Marketable Securities Revenue

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

Our liquidity policy requires us to hold a liquidity portfolio to meet anticipated cash requirements. In 2018, as a result of changes to the policy, the period required to be covered by the liquidity portfolio has increased from a minimum of two weeks to a minimum of one month.

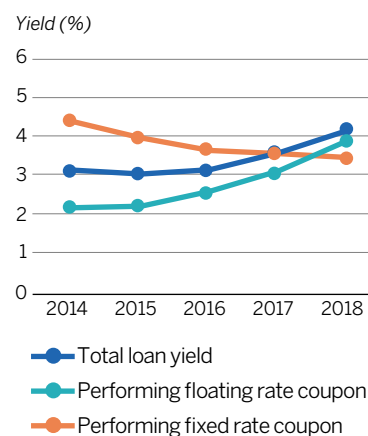
Our marketable securities revenue consists of income earned on short-term instruments, bonds and government securities held during the year. In 2018, marketable securities revenue increased by \$164 million to \$257 million due to a higher average balance as a result of the implementation of the new one-month liquidity policy as well as the increase in U.S. interest rates.

Our marketable securities portfolio is mainly sensitive to long-term U.S. Treasury rates. As these rates increased in 2018, the yield on our marketable securities portfolio increased from 1.36% in 2017 to 2.00% in 2018.

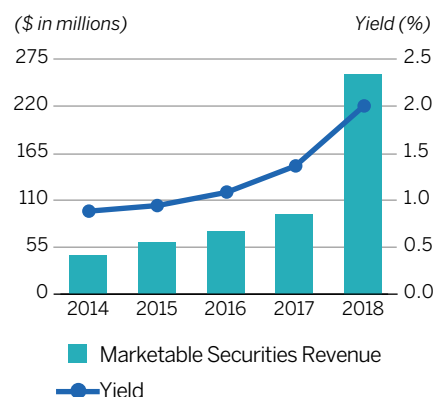
Components of the change in marketable securities revenue from 2017

(in millions of Canadian dollars)	2018
Increase in portfolio size	121
Increase in revenue from higher yield	44
Foreign exchange impact	(1)
Net change in marketable securities revenue	\$ 164

Loan Interest Yield



Marketable Securities Revenue



Interest Expense

Our interest expense includes the cost of our debt and related derivatives.

Interest expense totalled \$1,219 million in 2018, an increase of \$504 million from 2017 mainly as a result of increased cost of funds as well as a higher average portfolio size.

Our cost of funds increased from 1.45% to 2.20% primarily due to increases in the U.S. London Interbank Offered Rate (LIBOR). Debt yields on our floating rate portfolio increased to 2.24% in 2018 from 1.37% in 2017. Our fixed rate debt yields also increased to 1.99% from 1.93%.

The implementation of the new one-month liquidity policy also impacted our level of debt in 2018, as our borrowings increased in order to finance the growth in our marketable securities portfolio.

Components of the change in interest expense from 2017

(in millions of Canadian dollars)	2018
Increase in expense from higher cost of funds	391
Increase in portfolio size	115
Foreign exchange impact	(2)
Net change in interest expense	\$ 504

Net Finance Margin

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

The net finance margin for 2018 was 1.83%, a decline of 24bps when compared to 2017 mainly due to the increase in the average balance of our marketable securities portfolio as a result of our new one-month liquidity policy. While marketable securities revenue increased due to the higher average balance, there was a corresponding increase in interest expense as the portfolio is funded with debt. We anticipate the net finance margin will remain relatively stable in 2019.

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

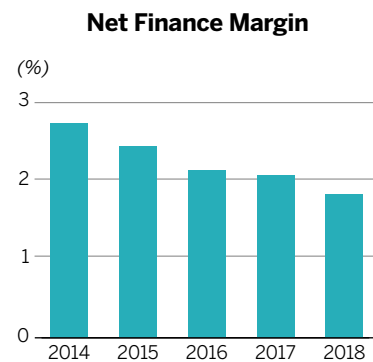
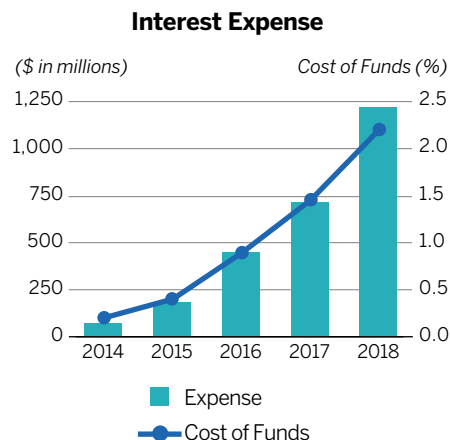
Net Insurance Premiums and Guarantee Fees

Net premium and guarantee fee revenue earned in our insurance program in 2018 totalled \$204 million, an increase of \$4 million from 2017.

Net insurance premiums earned under our financial institutions insurance product group totalled \$13 million compared to \$18 million for the prior year, mainly due to a decrease in business facilitated with an existing policyholder.

Net insurance premiums and guarantee fees earned under our contract insurance and bonding product group totalled \$76 million, an increase of \$9 million from 2017 due to increased activity in the infrastructure and environment and extractive sectors with several key exporters.

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



Other (Income) Expenses

Other income in 2018 totalled

\$98 million, an increase of

\$132 million from 2017.

In 2018, our investments portfolio experienced net realized gains of \$41 million (2017 – \$10 million) and net unrealized gains of \$108 million (2017 – \$23 million) due to strong performance in both our fund and direct portfolios.

<i>(in millions of Canadian dollars)</i>	2018	2017
Net realized and unrealized (gain) loss on investments	(149)	(33)
Net realized and unrealized (gain) loss on derivatives	10	59
Net realized and unrealized (gain) loss on marketable securities	9	26
Net realized and unrealized (gain) loss on loans payable	8	(78)
Loss on sale and impairment of aircraft*	5	11
Loss on sale of loan assets	4	19
Foreign exchange translation loss	16	10
Other	(1)	20
Total other (income) expenses	\$ (98)	\$ 34

* Refer to Note 6.

We use a variety of derivatives to manage our interest rate and foreign exchange risk. Our derivatives are held for asset-liability management, of which a portion are directly associated with our loans payable, which are designated at fair value to obtain the same accounting treatment as the derivative. Fair value fluctuations in our debt and marketable securities portfolios generally move opposite to the fair value movements of their related derivatives. However, we also hold derivatives related to our Canadian dollar capital and other risk-mitigation strategies, which do not have corresponding fair value treatment. Refer to page 97 for further discussion on our derivatives.

During 2018, we recorded net realized and unrealized losses of \$27 million for our derivatives, loans payable and marketable securities (2017 – \$7 million), mainly driven by \$22 million of realized losses on marketable securities sold as part of regular rebalancing performed to meet internal guidelines.

Reversal of Provision for Credit Losses

We recorded a reversal of provision for credit losses of \$11 million related to our loan portfolio in 2018. In 2017 there was a reversal of provision for credit losses of \$119 million primarily due to updates to our loss given default models as previously mentioned.

<i>(in millions of Canadian dollars)</i>	2018⁽¹⁾
Remeasurements ⁽²⁾	(41)
New originations ⁽³⁾	168
Net repayments and maturities ⁽³⁾	(138)
Reversal of provision for credit losses	\$ (11)

<i>(in millions of Canadian dollars)</i>	2017 ⁽¹⁾
Credit migration	111
Updated probability of default and loss given default models ⁽²⁾	(123)
Increased concentration threshold	(6)
Changes in portfolio composition ⁽³⁾	(55)
Update to allowance assumption ⁽²⁾	(46)
Reversal of provision for credit losses	\$ (119)

⁽¹⁾ Current year amounts have been prepared in accordance with IFRS 9. Prior year amounts have not been restated and are prepared in accordance with IAS 39.

⁽²⁾ Refer to Note 4 of the Consolidated Financial Statements.

⁽³⁾ Represents provision requirement (release) as a result of repayments, performing loan sales, disbursements and new financing commitments. Also includes the impact of changes in collateral values for our secured loans as these impacts should be considered in conjunction with the impact of the repayments on these loans.

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

Claims-Related Expenses

Total claims-related expenses increased \$98 million over last year mainly due to the change in the net allowance for claims, partially offset by a decrease in claims paid compared to the prior year.

The increase in the net allowance for claims was primarily driven by claims in our political risk insurance product group relating to risks in North Africa, partially offset by an update to the expense assumption used in the actuarial calculation of our allowance for claims on insurance. Refer to page 144 for further discussion on the updated expense assumption.

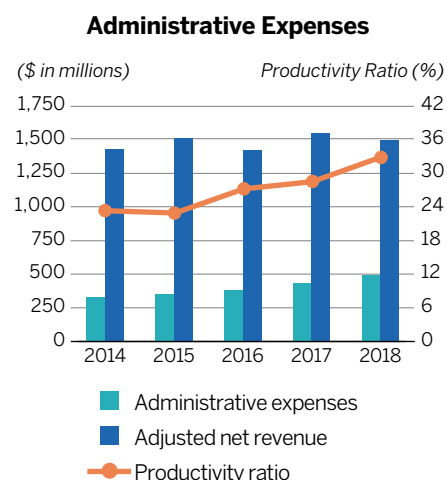
We paid \$74 million in claims in 2018, a decrease of \$127 million from the prior year mainly due to claims paid in 2017 relating to insolvencies of buyers in the U.S. retail sector within the credit insurance product group.

<i>(in millions of Canadian dollars)</i>	2018	2017
Claims paid	74	201
Claims recovered	(38)	(41)
Claims recovered from reinsurers	(18)	(3)
Actuarial increase in the net allowance for claims on insurance	197	3
(Increase) decrease in recoverable insurance claims	34	(6)
Claims handling expenses	6	3
Total claims-related expenses	\$ 255	\$ 157

Administrative Expenses

Administrative expenses for 2018 totalled \$497 million, an increase of \$66 million from the prior year. We continue to make foundational investments to update our technology and digital platforms and our risk management systems. For further details on our enterprise risk management transformation, refer to page 90. As a result of these investments, we experienced an increase in human resources, professional services and systems costs in 2018.

The Productivity Ratio (PR) captures how well we use our resources and ultimately manage our costs. As we invest in our business, the 2018 PR increased to 32.9%, which is in line with our Corporate Plan projection.



FINANCIAL CONDITION

Statement of Financial Position Summary

Total assets were \$69.4 billion at the end of 2018, an increase of \$9.3 billion, or 15%, from 2017. This is mainly due to an increase in marketable securities as a result of the change in our liquidity policy requirements from two weeks to one month, as well as an increase in our loans receivable.

Loans receivable were \$54.6 billion, an increase of \$3.5 billion, or 7%, from 2017 mainly due to foreign exchange translation of \$3.4 billion.

Loans payable were \$55.4 billion compared to \$47.1 billion in 2017, an increase of \$8.3 billion. The increase is mainly due to funding the increase in marketable securities and foreign exchange translation of \$3.3 billion.

<i>as at December 31</i> <i>(in millions of Canadian dollars)</i>	2018	2017
Cash and marketable securities	13,289	8,214
Derivative instruments	256	315
Loans receivable	54,566	51,127
Allowance for losses on loans	(820)	(1,363)
Investments	1,342	1,124
Other	747	703
Total Assets	\$ 69,380	\$ 60,120
Loans payable	55,448	47,114
Derivative instruments	1,971	1,690
Premium and claims liabilities	890	608
Other liabilities	726	668
Equity	10,345	10,040
Total Liabilities and Equity	\$ 69,380	\$ 60,120

Corporate Plan Discussion

The following section discusses our 2018 results and financial position in comparison to Corporate Plan projections. We begin by looking back to our 2018 Corporate Plan and compare actual results to what was expected. Then we look forward to 2019 and provide an explanation of where we anticipate changes from our 2018 results and financial position.

Financial Performance

<i>for the year ended December 31</i> <i>(in millions of Canadian dollars)</i>	2019 Corporate Plan	2018 Actual Results	2018 Corporate Plan
Net financing and investment income	1,233	1,221	1,295
Net insurance premiums and guarantee fees*	266	252	252
Other (income) expenses	(6)	(98)	(2)
Administrative expenses	569	497	527
Provision for (reversal of) credit losses	22	(11)	11
Claims-related expenses	93	255	91
Net income	821	830	920
Other comprehensive income	89	44	89
Comprehensive income	\$ 910	\$ 874	\$ 1,009

* Includes loan guarantee fees.

2018 Corporate Plan

Net income for 2018 was \$830 million, \$90 million lower than the 2018 Corporate Plan net income of \$920 million. Items of note are as follows:

- Claims-related expenses were \$164 million higher than the Corporate Plan due to the change in the net allowance for claims as a result of higher claims in our political risk insurance product group.
- Other income was \$96 million higher than the Corporate Plan mainly due to strong performance in our investments portfolio. Due to the volatility associated with our financial instruments carried at fair value, a forecast for unrealized gains and losses was not included in the Corporate Plan.
- Net financing and investment income was \$74 million lower than the Corporate Plan primarily due to an increase in interest rates in our short-term loans payable portfolio as well as foreign exchange translation as a result of the difference in rates used to produce the Plan and the 2018 year-end rate.

2019 Corporate Plan

Net income for 2019 is planned to be \$821 million, \$9 million lower than 2018. Items of note are as follows:

- We are projecting a decline in claims-related expenses in 2019 as we are not anticipating the same level of claims activity in our political risk insurance product group when compared with 2018.
- Due to the volatility and difficulty in estimating unrealized gains and losses on financial instruments, a forecast for these amounts is not included in the Plan, resulting in a variance in other income of \$92 million.
- Administrative expenses are expected to increase in 2019 due to a number of significant multi-year investments being made to support our core business, resulting in additional costs for human resources, professional services and systems as described below:
 - we are improving our enterprise risk management framework for a stronger risk culture;
 - we are continuing to invest in a multi-year digital strategy in order to provide customers with easier access to EDC; and
 - we are expanding our core operations to better meet the needs of Canadian micro and SME exporters.

Financial Position

as at December 31 (in millions of Canadian dollars)	2019 Corporate Plan	2018 Actual Results	2018 Corporate Plan
Cash and marketable securities	11,327	13,289	10,664
Derivative instruments	490	256	280
Loans receivable	52,716	54,566	54,687
Allowance for losses on loans	(1,055)	(820)	(1,201)
Investments	1,492	1,342	1,236
Other assets	899	747	823
Total Assets	\$ 65,869	\$ 69,380	\$ 66,489
Loans payable	52,505	55,448	52,794
Derivative instruments	1,866	1,971	2,107
Premium and claims liabilities	624	890	579
Other liabilities	642	726	669
Equity	10,232	10,345	10,340
Total Liabilities and Equity	\$ 65,869	\$ 69,380	\$ 66,489

2018 Corporate Plan

Cash and marketable securities were \$2.6 billion higher than Corporate Plan due to the change in our liquidity policy as previously discussed. While the numbers in the Corporate Plan reflected the change in policy, our balance is higher than Corporate Plan mainly due to increased cash requirements for pre-funding of debt maturities, as well as foreign exchange translation.

Loans payable for 2018 were \$2.7 billion higher than projected in the Corporate Plan mainly due to a larger increase in marketable securities than was projected in the Corporate Plan, as well as foreign exchange translation.

2019 Corporate Plan

The 2019 Corporate Plan is projecting cash and marketable securities, loans receivable and loans payable to be lower than 2018 actual results. The 2018 actual results ended higher than expected at the time the 2019 Corporate Plan was prepared, mainly due to foreign exchange translation.

Portfolio Exposures and Credit Quality

CONCENTRATION OF EXPOSURE

EDC's total exposure at the end of 2018 was \$122.3 billion, an increase of \$11.7 billion from 2017 primarily as a result of foreign exchange translation. The majority of the exposure in 2018 was within the United States (29%) and Canada (20%), consistent with 2017.

Exposure by Portfolio

as at December 31 (in millions of Canadian dollars)	2018	2017
Financing portfolio:		
Financing assets ⁽¹⁾	55,951	52,323
Commitments and guarantees ⁽²⁾	28,879	28,071
Total financing portfolio	84,830	80,394
Insurance portfolio:		
Credit insurance	11,282	9,294
Financial institutions insurance	1,996	3,392
Contract insurance and bonding	10,016	8,297
Political risk insurance	886	915
Reinsurance ceded ⁽³⁾	(250)	(250)
Total insurance portfolio	23,930	21,648
Marketable securities and derivative instruments ⁽⁴⁾	13,545	8,529
Total exposure	\$ 122,305	\$ 110,571

⁽¹⁾ Includes gross loans receivable and investments.

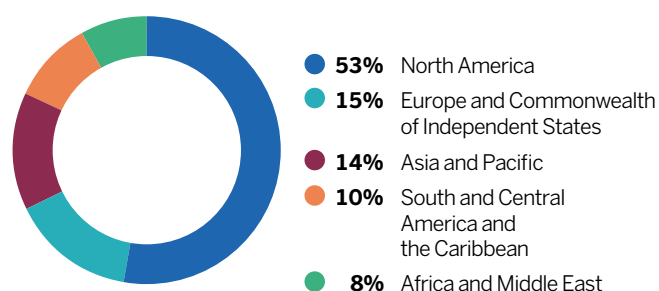
⁽²⁾ Includes \$736 million of investment commitments (2017 – \$785 million).

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

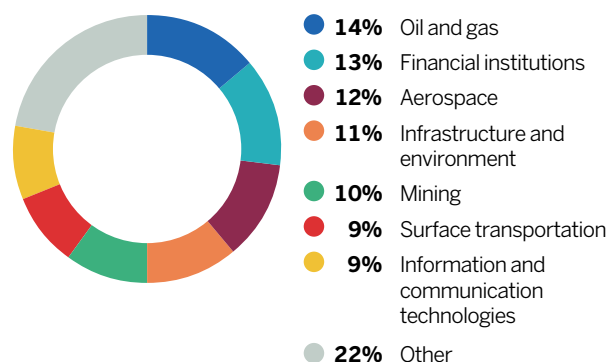
⁽⁴⁾ Includes cash.

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

Exposure by Geographic Market



Exposure by Industry



FINANCING PORTFOLIO

Loans Portfolio

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

Gross Loans Receivable

Gross loans receivable totalled \$54,609 million at the end of 2018, an increase of \$3,410 million or 7% from 2017. The increase was mainly due to foreign exchange translation. The weaker Canadian dollar increased gross loans receivable by \$3.4 billion, with the majority of this attributed to loans denominated in U.S. dollars.

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

Individually Impaired Gross Loans Receivable

Impaired loans represent loans for which we no longer have reasonable assurance that the full amount of principal and interest will be collected on a timely basis in accordance with the terms of the loan agreement. At the end of 2018, impaired gross loans receivable totalled \$863 million, a decrease of \$52 million from the end of 2017. The removal of one obligor in the information and communication technologies industry (\$193 million), partially offset by an impairment in the infrastructure and environment sector (\$59 million) and two impairments in the aerospace sector (\$47 million) contributed to the decrease in 2018. Overall, impaired loans as a percentage of total gross loans receivable decreased to 1.58% in 2018 from 1.79% in 2017.

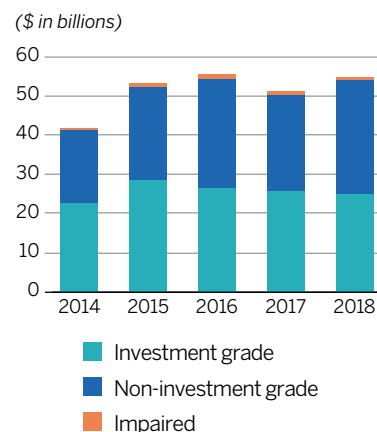
Note 4 in the Consolidated Financial Statements provides additional information on the activity in our impaired loans portfolio during the year.

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

Commercial Loans, Loan Commitments and Loan Guarantees

(in millions of Canadian dollars)	Gross loans receivable	Commitments	Loan guarantees	Risk transfer	2018 Exposure		2017 Exposure	
					\$	%	\$	%
Industry								
Oil and gas	9,043	7,025	173	(810)	15,431	19	15,559	20
Aerospace	10,946	2,956	102	(228)	13,776	17	14,322	19
Surface transportation	5,580	3,286	654	–	9,520	12	9,027	12
Infrastructure and environment	6,370	2,252	433	–	9,055	11	7,663	10
Mining	6,955	2,688	295	(955)	8,983	11	9,158	12
Information and communication technologies	6,780	1,308	463	(341)	8,210	10	7,955	10
Financial institutions	3,209	1,933	4	2,334	7,480	9	7,376	10
Light manufacturing	2,751	1,732	788	–	5,271	6	3,209	4
Resources	1,935	1,573	298	–	3,806	5	2,438	3
Total	\$ 53,569	\$ 24,753	\$ 3,210	\$ –	\$ 81,532	100	\$ 76,707	100

Gross Loans Receivable



The increase in the commercial loans portfolio is mainly due to foreign exchange translation. Increases in the light manufacturing, infrastructure and environment and resources sectors are mainly due to net loan disbursements, while the decrease in the aerospace sector is primarily due to net loan repayments. In order to manage our concentration risk, we enter into unfunded loan participation and loan default insurance agreements with financial institutions, thereby transferring exposure from other industries to the financial institutions industry.

In 2018, non-investment grade exposure accounted for 49% (2017 – 45%) of total exposure. The increase in non-investment grade exposure is mainly attributable to downward credit migration in the aerospace, information and communication technologies and resources sectors, as well as non-investment grade signings and loan disbursements in 2018. The largest concentrations of non-investment grade exposures are within the aerospace (23%), oil and gas (23%) and infrastructure and environment sectors (11%).

Our five most significant counterparty exposures representing \$6,807 million, or 8% of the total commercial exposure at the end of 2018 were as follows:

- one aerospace sector obligor with total exposure of \$1,555 million, located in the United States;
- one information and communication technologies sector obligor with total exposure of \$1,524 million, located in the United States;
- one surface transportation sector obligor with total exposure of \$1,305 million, located in the United Kingdom;
- one mining sector obligor with total exposure of \$1,229 million, located in Chile; and
- one oil and gas sector obligor with total exposure of \$1,194 million, located in Mexico.

After consideration of unfunded loan participations and loan default insurance, our exposure to these counterparties represents \$4,547 million.

Sovereign Loans, Loan Commitments and Loan Guarantees

(in millions of Canadian dollars)							
	Gross loans receivable	Commitments	Loan guarantees	2018 Exposure		2017 Exposure	
Country				\$	%	\$	%
Angola	401	112	–	513	42	486	27
Indonesia	156	–	–	156	13	170	10
Serbia	74	–	–	74	6	207	12
Ukraine	67	–	–	67	5	123	7
China	65	–	–	65	5	68	4
Uruguay	–	–	64	64	5	71	4
Pakistan	58	–	–	58	5	58	3
Rwanda	56	–	–	56	5	61	3
Côte d'Ivoire	38	–	–	38	3	39	2
Other	125	4	–	129	11	495	28
Total	\$ 1,040	\$ 116	\$ 64	\$ 1,220	100	\$ 1,778	100

The decrease in sovereign exposure is primarily due to the expiration of a commitment for \$239 million to Azerbaijan and the repayment of \$127 million of exposure in Serbia.

Sovereign exposure includes 89% of non-investment grade exposure (2017 – 77%). The increase in non-investment grade exposure is primarily due to the downward credit migration of Indonesia.

Allowance for Credit Losses

The total allowance for losses on loans, loan commitments and loan guarantees was \$920 million at the end of 2018, a decrease of \$192 million from the 2018 opening allowance.

The key components impacting the allowance in 2018 were as follows:

- net repayments and maturities – reduction of \$138 million;
- modification resulting in derecognition – decrease of \$137 million;
- loan write-offs – reduction of \$123 million;
- remeasurement as a result of net upward credit migration – decrease of \$41 million;
- new originations – increase of \$168 million; and
- the weakening of the Canadian dollar relative to the U.S. dollar – increase of \$79 million.

Investments

EDC plays a role in helping Canadian companies access capital and financing to support their export growth that includes support to expand outside Canada to meet global market opportunities. Our solution suite covers a broad range of solutions with a portfolio of debt, late stage venture capital and private equity investments focused on promising Canadian exporters. Our exporter investments are made both directly into Canadian businesses as well as via Canadian fund partners. In addition we invest in international funds in key priority markets where such investments can serve to facilitate the connection of Canadian business activity to international markets, with the goal of growing Canadian exporters and facilitating foreign business connections. Investments are normally held for periods greater than five years. Divestitures are generally made through the sale of our investment interests through private sales to third parties or sales on public markets.

Consistent with our business goal of growing investments, our exposure increased by \$169 million to \$2,078 million in 2018 largely as a result of new commitments. During the year, we signed an additional \$190 million of investment arrangements (2017 – \$164 million).

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

INSURANCE PORTFOLIO

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

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

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

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

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

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

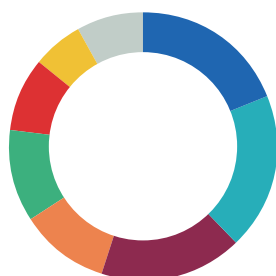
Insurance in Force

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

Insurance in force totalled \$23,930 million at the end of 2018, compared to the 2017 level of \$21,648 million.

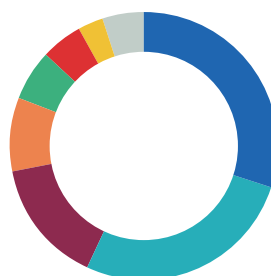
The following charts show the exposure by industry of our credit insurance and contract insurance and bonding product groups:

**Credit Insurance
Exposure by Industry**



- **19%** Resources
- **19%** Mining
- **17%** Light manufacturing
- **11%** Infrastructure and environment
- **11%** Surface transportation
- **9%** Information and communication technologies
- **6%** Oil and gas
- **8%** Other

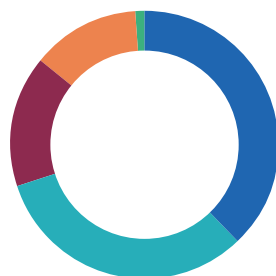
**Contract Insurance and Bonding
Exposure by Industry**



- **30%** Financial institutions
- **27%** Infrastructure and environment
- **15%** Mining
- **9%** Oil and gas
- **6%** Surface transportation
- **5%** Aerospace
- **3%** Resources
- **5%** Other

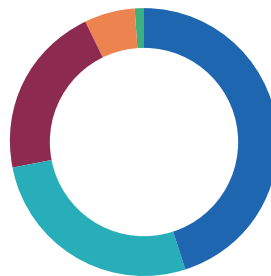
The following charts show the exposure by geographic market for our financial institutions and political risk insurance product groups:

**Financial Institutions Insurance
Exposure by Geographic Markets**



- **38%** South and Central America and the Caribbean
- **32%** Europe and Commonwealth of Independent States
- **16%** North America
- **13%** Asia and Pacific
- **1%** Africa and Middle East

**Political Risk Insurance
Exposure by Geographic Market**



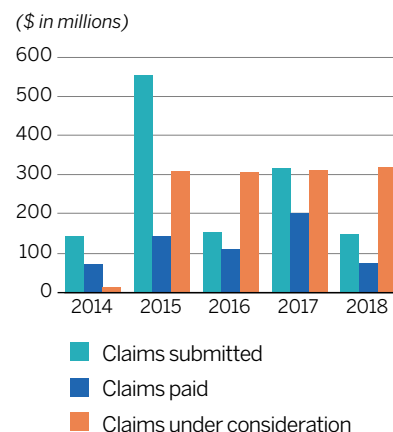
- **45%** South and Central America and the Caribbean
- **27%** Africa and Middle East
- **21%** Asia and Pacific
- **6%** North America
- **1%** Europe and Commonwealth of Independent States

Claims

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

(in millions of Canadian dollars)	2018		2017	
	\$	%	\$	%
Infrastructure and environment	27	37	41	20
Resources	18	24	24	12
Light manufacturing	14	19	108	54
Information and communication technologies	8	11	6	3
Oil and gas	4	5	3	2
Surface transportation	3	4	17	8
Mining	–	–	2	1
Claims paid	74	100	201	100
Claims recovered	(56)		(44)	
Net claims paid	\$ 18		\$ 157	

Claims Submitted, Paid and Under Consideration



Claim payments totalled \$74 million in 2018 and were comprised of 1,140 claims related to losses in 77 countries (2017 – 699 claims in 68 countries). In 2018, the largest concentration of claim payments was made under our credit insurance product group for default and insolvency geographically concentrated in the Americas.

In 2018, we recovered \$59 million in total (2017 – \$45 million) of which \$3 million was disbursed to exporters (2017 – \$1 million).

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

Premium and Claims Liabilities

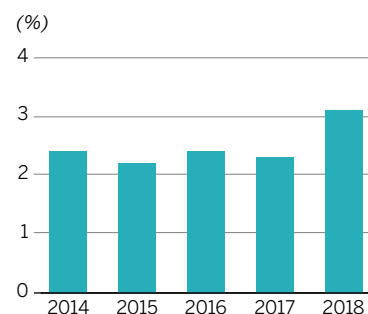
Premium and claims liabilities represent our estimate of future claims under the terms and conditions of our insurance policies.

At the end of 2018, the premium and claims liabilities were \$890 million. The liability net of the reinsurers' share was \$740 million, an increase of \$235 million from 2017. The most significant components impacting the net premium and claims liabilities was an increase in claims in our political risk insurance product group relating to risks in North Africa, partially offset by an update to the expense assumption used in the actuarial calculation of our allowance for claims (refer to page 144).

The reinsurance ceded amount, recorded as an asset on the consolidated statement of financial position, represents the reinsurers' share of our premium and claims liabilities and is also included in our premium and claims liabilities. The reinsurance ceded amount was \$150 million compared to \$103 million in 2017. If we were required to pay out a claim on reinsured policies, we could recover from the reinsurer depending on the terms of the agreement.

The net premium and claims liabilities as a percentage of the insurance in force was 3.1% in 2018 (2017 – 2.3%).

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



As permitted by International Financial Reporting Standard 7 – Financial Instruments: Disclosures, we have displayed certain parts of our Management's Discussion and Analysis which discuss the nature, extent and management of credit, liquidity and market risks in green font. These disclosures form an integral part of our audited Consolidated Financial Statements for the year ended December 31, 2018.

MARKETABLE SECURITIES AND DERIVATIVE INSTRUMENTS

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

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

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

(in millions of Canadian dollars)

Credit rating	Remaining term to maturity			2018 Exposure	2017 Exposure
	Under 1 year	1 to 3 years	Over 3 years		
AAA	4,126	2,905	3,475	10,506	6,850
AA+	–	–	14	14	–
AA	–	41	–	41	–
AA-	1,911	–	–	1,911	755
A+	454	26	–	480	324
A	334	–	–	334	285
BBB+	3	–	–	3	–
Total	\$ 6,828	\$ 2,972	\$ 3,489	\$ 13,289	\$ 8,214

Derivatives expose us to the risk that the counterparty will not repay us in accordance with contractual terms. Our potential derivative credit exposure is represented by the replacement cost of contracts that have a positive fair value. For a more in-depth discussion on the use of derivative instruments, refer to the section on derivative instruments (see page 97).

All swaps are transacted with high credit quality financial institutions. We operate a collateral program to mitigate credit exposure related to swaps used to hedge risk within our funding program. As market rates move between the settlement date and maturity date of the swap, the financial instrument attains value such that to terminate the swap early, one counterparty would need to make a payment to the other to compensate for the movement in rates. In order to mitigate the credit risk, we enter into collateral agreements with financial institutions with whom we undertake swap transactions. Under the terms of the swap agreements, when the credit exposure surpasses an agreed upon threshold, collateral in the form of government securities is posted with an independent third party by our swap counterparty. At the end of 2018, there was no collateral posted by our counterparties to mitigate credit risk associated with swap agreements.

The following table provides a breakdown, by credit rating and term to maturity, of our derivative credit exposure and how it is offset against exposure netting amounts and collateral held. Exposure netting amounts represent derivative contracts where there is an agreement with the counterparty (netting agreement) that allows us to offset the counterparty's derivative credit exposure to us against our credit exposure to that same counterparty. After applying both exposure netting and collateral held, our net exposure is \$12 million (2017 – \$28 million).

(in millions of Canadian dollars)

Credit rating	Remaining term to maturity			Gross exposure	Exposure netting*	2018 Net exposure	2017 Net exposure
	Under 1 year	1 to 3 years	Over 3 years				
AA-	34	34	100	168	(167)	1	5
A+	18	10	49	77	(70)	7	6
A	5	–	4	9	(5)	4	9
A-	–	2	–	2	(2)	–	8
Total	\$ 57	\$ 46	\$ 153	\$ 256	\$ (244)	\$ 12	\$ 28

* As a result of netting agreements.

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

Capital Management

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

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

as at December 31

(in millions of Canadian dollars)

	2018	2017
Demand for capital		
Credit risk	3,024	2,825
Market risk	907	930
Operation risk	227	246
Strategic risk	416	400
Pension plan risk	520	492
Strategic initiatives	200	300
Total demand for capital	\$ 5,294	\$ 5,193
Supply of capital	\$ 10,345	\$ 10,040
EDC implied solvency rating	AAA	AAA

We assess capital adequacy by comparing the supply of capital to the demand for capital. Demand for capital, which is calculated by a model that estimates the capital required to cover the extreme value of potential losses, includes credit, market, operational, pension plan and business/strategic risk. The supply of capital is determined by our financial statements and consists of paid-in share capital and retained earnings.

We measure and report changes to capital supply, capital demand and its implied solvency rating to executive management monthly. These capital measures are reported regularly to the Board together with forward looking stress tests which model the potential impact on capital of portfolio migration and other key risk events.

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

Investor Relations

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

Funding

In 2018, EDC borrowed USD 10 billion and issued in a variety of strategic markets.

EDC was active in the Sterling market and reopened a four-year fixed rate bond increasing it by 100 million to bring the total to 350 million Great British pounds. We issued a five-and-a-half-year fixed rate bond for 250 million and later tapped the bond by an additional 100 million to bring the total to 350 million Great British pounds. In response to investor demand, we issued two floating rate notes denominated in Great British pounds which included a five-year 750 million bond as well as a three-year 500 million bond.

The USD Global Benchmark market is an important part of EDC's funding programme and we issued a USD 1.25 billion five-year Global benchmark bond and a second USD 1 billion five-year Global benchmark bond in 2018.

We maintained our presence in the Australian bond market and reopened an existing five-year benchmark bond, increasing it by 325 million and a second time for another 125 million to bring the total to AUD 1 billion. As well, EDC issued a new 400 million Australian dollar five-year benchmark bond.

EDC also maintained a presence in the New Zealand bond market with the successful launch of a five-year fixed rate 350 million bond in New Zealand dollars.

EDC had an active year issuing Chinese Yuan-denominated bonds with the sale of five bonds in 2018 which included: a one-year 450 million Yuan fixed rate note with a coupon of 4.18 per cent; a one-year 300 million Yuan fixed rate bond with a coupon of 3.45 per cent; a one year 200 million Yuan fixed rate note with a coupon of 3.80 per cent; a two-year 220 million Yuan transaction with a coupon of 4.0 per cent and a two-year 313 million Yuan fixed rate note with a coupon of 4.25 per cent.

EDC also responded to investor needs for private placement transactions denominated in a variety of currencies.

Credit Credentials

An agent of Her Majesty in right of Canada and carrying the full faith and credit of the Government of Canada, EDC is AAA/Aaa rated. We service our debt from our own resources and our borrowings are the Government of Canada's full obligations, payable from the Consolidated Revenue Fund (the government's primary account) ensuring timeliness of payment.

Off Balance Sheet Arrangements

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

In certain financing transactions, SEs are used to securitize assets and are typically highly debt-leveraged and, in certain circumstances, equity guarantees may also be used. EDC may also use SEs to hold assets that have been foreclosed upon and cannot be held directly for legal or taxation reasons, typically for foreclosed assets in foreign countries. Refer to Note 25 for further details.

Fiscal 2018
Total Funding USD 10 billion



Financial Instruments

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

In accordance with IFRS, the majority of our financial instruments are recognized in the statement of financial position at their fair value. These financial instruments include marketable securities, investments, derivative instruments, loans payable designated at fair value through profit or loss and recoverable insurance claims. Note 2 of the consolidated financial statements outlines the accounting treatment for our financial instruments, while Note 22 provides details of how their fair values are determined.

Derivative Instruments

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

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

Risk Management Overview

Striking the right balance between risk and reward in pursuit of growth

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

We have established a foundational Enterprise Risk Management (ERM) practice and we are in the midst of making significant investments in our risk management activities. We have adopted a plan to enhance our practice to ensure comprehensive, enterprise-wide risk management. We refer to this as our ERM Transformation program. This plan has been augmented by guidance provided by the Office of the Superintendent of Financial Institutions, the Office of the Auditor General and industry leaders.

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

The ERM transformation emphasizes a strong risk culture of oversight and clear direction, ownership and accountability, and the requirement for robust monitoring and reporting. It is an enterprise-wide project touching all areas of our business. Key elements include: governance in accordance with a three-lines-of-defence model (3LD) (an industry best-practice approach to risk governance), articulation and operationalization of EDC's risk appetite; enhanced discipline around risk management processes; and integration of new financial and operational risk policies.

Our Board of Directors and management team are actively engaged to ensure that the ERM transformation program is effectively implemented at all levels of the corporation. This multi-year transformation began in 2012 with the development of a concept for an ERM Framework that outlines the inherent risks that EDC faces in the course of its business and presents an overarching governance structure for effectively managing risk across the entire organization. We have also developed a Risk Appetite

Statement that articulates our desired attitudes and behaviours (“tone from the top”) toward taking risk and seizing opportunities. The most recent version of the Risk Appetite Statement was approved by the Board of Directors in May 2018.

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

Throughout 2018, we focused our attention on the redesign of the Chief Risk Officer’s Group to ensure that appropriate structure and capabilities are in place to support enterprise-wide roll out of 3LD governance. The group has been renamed the Global Risk Management Group (GRM Group) to better reflect the all-encompassing nature of its mandate relative to risk management at EDC.

In keeping with industry practice, we first developed a GRM Charter. This document outlines the responsibilities of the GRM Group, and denotes its enterprise-wide authority, independence and unfettered access to the Board and the Board Risk Management Committee.

Next, we undertook a structural redesign of the GRM function. This was essential to align with the GRM Charter and will enable risk ownership in the first line, ensure independent oversight and effective challenge by the second line and support the successful operationalization of other ERM-related enterprise-wide policies and practices. The group’s new structure is anchored on four pillars (Risk Management Office, Risk Quantification, Compliance and Ethics and Enterprise Risk Management), with each pillar led by a dedicated Vice-President. A multi-year implementation plan is underway to achieve the future state.

As the ERM transformation program continues to move from planning to implementation, EDC will realize the benefits of having increased clarity around risk and decision-making. This, in turn, will help us deliver risk appropriate solutions for exporters in a more efficient and predictable manner.

Risk Governance, Oversight and Design

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

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

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

BOARD AND ITS COMMITTEES

Board of Directors

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

⁽¹⁾ For further details on Board Committees, please refer to page 64 of this Annual Report.

Risk Management Committee of the Board

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

Audit Committee of the Board

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

MANAGEMENT AND ITS KEY RISK COMMITTEES

Executive Management Team

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

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

Management Risk Management Committee

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

Asset Liability Management Committee

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

Investment Committee

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

Business Review Committee

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

Management Pension Committee

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

Strategy Execution Committee

This committee is responsible for the oversight and decision making of enterprise-wide strategic initiatives, including designated business transformation programs. The Strategy Execution Committee is responsible for ensuring that programs and resources are prioritized, coordinated and executed in a manner that aligns with EDC's business strategy and policies.

The ERM transformation program includes a review of senior management committees. As we restructure and adopt the 3LD model, the structure of our risk committees will evolve and be revised accordingly.

KEY RISK MANAGEMENT GROUPS

Global Risk Management Group

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

Finance

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

Internal Audit

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

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

Front Line Units

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

Risk Modules

EDC's Risk Management Framework breaks risk down into three broad Risk Modules, expressing EDC's risk appetite and tolerance: Financial Risk, Operational Risk and Strategic Risk. As a financial institution, financial risk is naturally front and centre and, as a result, the majority of this report covers this area.

FINANCIAL RISK MANAGEMENT

Portfolio Risk Profile

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

Despite a portfolio distribution that is almost equally segmented between investment grade and non-investment grade borrowers in 2018, the vast majority of EDC's risk profile, as determined by capital demand for credit risk, emanates from the non-investment grade space. Although only 52% of EDC's loan portfolio is non-investment grade, 93% of capital demand is attributable to this category of obligor.

Credit Risk Management

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

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

Credit Granting

We deliver our products and services through sector-based business teams grouped under our insurance or financing programs. The business teams are responsible for the proper due diligence associated with each credit commitment. Every credit commitment requires recommendation and approval. Credit commitments in excess of certain thresholds also require independent endorsement or co-authorization by the Global Risk Management Group or the Management Risk Management Committee. The purpose of endorsement or co-authorization is to ensure that all relevant, tangible risks in the proposed credit commitment have been identified, assessed and mitigated where possible. The credit rating of a transaction and/or the dollar amount of exposure at risk determines whether involvement is required by the GRM Group or the Management Risk Management Committee. All transactions above U.S. \$300 million require authorization by the Board. However, this threshold can be reduced to as low as U.S. \$200 million for transactions with lower credit quality.

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

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

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

Concentration Limits

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

Risk Ratings

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

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

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

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

Exposure Measurement

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

Monitoring and Review

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

Portfolio Management

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

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

Management and Board Reporting

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

Market Risk Management

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate 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 losses as a result of movements in interest and foreign exchange rates.

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

Interest Rate Risk

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

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

Management of interest rate risk is enabled through monthly risk position monitoring against limits and reporting. Interest rate risk is measured by simulating the impact of a 100 basis point change on our net financing and investment income.

Interest Rate Sensitivity

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

(in millions of Canadian dollars)	2018		2017	
	+100 Basis Points	-100 Basis Points	+100 Basis Points	-100 Basis Points
Change in net financing and investment income	(13)	13	11	(11)
Change in net income	304	(296)	242	(247)

Foreign Exchange Risk

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

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

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

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

As the table below indicates, we were inside our policy as at December 31.

<i>(in millions of Canadian dollars)</i>	2018	2017
Limit	32	32
Position	9	12

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

<i>(in millions of Canadian dollars)</i>	2018		2017	
	Increases by 1%	Decreases by 1%	Increases by 1%	Decreases by 1%
Change in net income	(2)	2	(2)	2

Derivative Instruments

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

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

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

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

<i>As at December 31 (in millions of Canadian dollars)</i>	Positive	Negative	2018 Net	Positive	Negative	2017 Net
Less than 1 year	57	(673)	(616)	87	(793)	(706)
1 – 3 years	46	(628)	(582)	81	(604)	(523)
Over 3 – 5 years	56	(422)	(366)	39	(212)	(173)
Over 5 years	97	(248)	(151)	108	(81)	27
Gross fair value of contracts	\$ 256	\$ (1,971)	\$ (1,715)	\$ 315	\$ (1,690)	\$ (1,375)

Liquidity Risk Management

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

Our Treasury department is responsible for our liquidity management and the Market and Liquidity Risk team is responsible for monitoring compliance with our policies and procedures. Pursuant to our risk management policies, we must maintain sufficient liquidity to meet a prescribed minimum level, based on forecasted cash requirements. In 2018, the liquidity policy increased the period required to be covered from a minimum of two weeks to a minimum of one month.

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

We maintain liquidity through a variety of methods:

- **Cash and Marketable Securities:** We hold cash and marketable securities to ensure that sufficient liquidity is available if required to meet forecasted cash requirements. During 2018, the average balance of cash and marketable securities was \$13,033 million.
- **Access to Commercial Paper Markets:** In the course of our normal activities, our commercial paper programs provide us with the necessary liquidity to meet our cash requirements on a daily basis. During 2018, the average balance of commercial paper was \$9,716 million.

Investment Risk

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

Debt Funding

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

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

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of loss or harm resulting from inadequate or failed internal processes, people and systems, or from external events.

We divide operational risk into five broad categories:

- **People:** attracting, retaining, developing and deploying people with the necessary skill-sets and behaviours and ensuring an appropriate corporate culture.
- **Innovation and Transformation:** assuring capacity to innovate and evolve.
- **Information Management and Technology:** managing information and technology to enable and conduct business.
- **Governance, Legal and Compliance:** operating responsibly, protecting EDC’s rights and interests, and ensuring compliance.
- **Security and Protection:** protecting EDC’s people and assets and ensuring business continuity.

Exposure to operational risk could affect EDC’s ability to meet objectives and execute on our Corporate Plan by way of lost opportunity, business interruption and/or damage to our reputation.

EDC has policies addressing specific operational risks. Pursuant to the ERM Transformation program, we have identified the need to both develop additional policies and to revise others. This is being done in part to ensure adherence to sound practice, and in part to embed the 3LD governance structure into all of our processes and activities.

EDC has identified a list of key operational risks inherent to our business, including change management, information security, financial crime and internal and external fraud. We have assessed and continue to assess our exposure to these risks. This is done through a number of means including the biennial employee engagement survey and the annual ERM Survey. The employee engagement survey provides us with a mechanism to gather employee input on conditions that enable or inhibit key drivers of performance and the results serve to drive action plans in order to build on our strengths and support corporate values. The annual ERM survey allows us to analyze all risks to which EDC is exposed and facilitates the escalation of concerns to Executive Management and the Board, and consideration of mitigating action, as appropriate.

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

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

STRATEGIC RISK MANAGEMENT

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

We divide strategic risk into two categories:

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A summary of our significant accounting policies can be found in Note 2 of our 2018 consolidated financial statements. Judgment is required in the selection of accounting policies and their application requires the use of estimates and assumptions to arrive at the reported carrying values of our assets and liabilities. We have established procedures to ensure that accounting policies are applied consistently and that the process for making changes to methodologies and assumptions is well controlled and occurs in an appropriate and systematic manner. Areas where significant estimates are used include the allowance for credit losses; assets held for sale; recoverable insurance claims; premium and claims liabilities; retirement benefit obligations; and the fair value of financial instruments. Management exercises judgment in the allowance for credit losses; premium and claims liabilities; the fair value of financial instruments; structured entities and retirement benefit obligations. For details on our use of estimates and key judgments refer to page 120 of this annual report.

Change in Accounting Standards

In 2018, we adopted the impairment requirements of *IFRS 9 – Financial Instruments*, amendments to *IFRS 7 – Financial Instruments: Disclosures*, *IFRS 15 – Revenue from Contracts with Customers*, and *IFRIC 22 – Foreign Currency Transactions and Advance Consideration*, effective as of January 1, 2018 as issued by the International Accounting Standards Board (IASB). These amendments are discussed in Note 2 of our 2018 consolidated financial statements.

IFRS 16 – Leases

In January 2016, the IASB released the new Leases standard requiring lessees to recognize assets and liabilities for the rights and obligations created by leases. On transition we will apply the practical expedient not to reassess whether all existing contracts are, or contain, a lease at the date of initial application, and to apply this Standard to contracts that were previously identified as leases under *IAS 17 – Leases*, and *IFRIC 4 – Determining whether an Arrangement contains a Lease*. We have also chosen not to restate comparative figures on transition, as permitted by the Standard, and will recognize a measurement difference through an adjustment to opening retained earnings. We do not expect this adjustment to be material.

IFRS 17 – Insurance Contracts

In May 2017, the IASB issued IFRS 17 which establishes recognition, measurement, presentation, and disclosure requirements of insurance contracts. The standard requires entities to measure the contract liabilities using their current fulfillment cash flows and revenue to be recognized using one of three methods. In November 2018, the IASB provisionally decided to defer the IFRS 17 effective date by one year resulting in the standard being effective for reporting periods beginning on or after January 1, 2022. We continue to assess the impact of this standard on our consolidated financial statements.

IAS 19 – Employment Benefits

In February 2018, the IASB issued amendments to this standard requiring current service cost and net interest to be determined using the assumptions used for the remeasurement if a plan amendment, curtailment or settlement occurs. Amendments also require the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling be clarified. The amendments are effective for reporting periods beginning on or after January 1, 2019. EDC does not anticipate any plan amendment, curtailment or settlement in the foreseeable future. If such an event were to occur in the future, it would have an impact on the consolidated financial statements.

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 are effective for annual periods beginning on or after January 1, 2020 with early application permitted. We do not anticipate that the clarification to the definition of materiality will result in any changes to the consolidated financial statements.

Non-IFRS Performance Measures

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

Productivity Ratio (PR)

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

Capital Adequacy

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

Claims Ratio

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

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

Net claims incurred includes a decrease in actuarial liabilities of \$47 million (2017 – \$17 million increase) partially offset by claims paid net of recoveries and estimated recoveries of \$32 million (2017 – \$153 million).

The decrease in the claims ratio is mainly due to the decrease in claims paid in 2018 as well as the decrease in actuarial liabilities as a result of an update to the expense assumption used in the calculation of the allowance for claims on insurance.

<i>(in millions of Canadian dollars)</i>	2018	2017
Premiums earned	111	109
Reinsurance ceded	(9)	(6)
Net written premium	\$ 102	\$ 103
Net claims incurred	\$ (15)	\$ 170
Claims ratio	(15)%	165%

EDC manages its loss experience using a 7-year claims ratio for the credit insurance product group. In 2018, the ratio was 71% (2017 – 69%), exceeding our established target of 50% due to insolvency claims paid in the second half of 2017 related to buyers in the U.S. retail sector.

SUPPLEMENTAL INFORMATION

Table 1: Loan Interest Yield

<i>(in millions of Canadian dollars)</i>	2018	2017	2016	2015	2014
Gross loans receivable:					
Average performing floating rate	38,679	39,771	42,031	36,951	29,696
Average performing fixed rate	13,492	12,560	11,309	10,468	8,897
Total average performing gross loans receivable	52,171	52,331	53,340	47,419	38,593
Average carrying value on impaired loans	425	423	485	267	239
Total average income earning loan assets	\$ 52,596	\$ 52,754	\$ 53,825	\$ 47,686	\$ 38,832
Loan revenue:					
Performing floating rate interest	1,524	1,259	1,114	840	663
Performing fixed rate interest	473	453	417	420	394
Other loan revenue	210	203	189	215	182
Loan revenue	\$ 2,207	\$ 1,915	\$ 1,720	\$ 1,475	\$ 1,239
Yields – performing loans:					
Performing floating rate coupon ⁽¹⁾	3.94%	3.17%	2.65%	2.27%	2.23%
Performing fixed rate coupon ⁽¹⁾	3.51%	3.61%	3.69%	4.01%	4.43%
Total performing loan coupon yield ⁽¹⁾	3.83%	3.27%	2.87%	2.66%	2.74%
Total loan effective yield ⁽²⁾	4.20%	3.63%	3.20%	3.09%	3.19%

⁽¹⁾ Excludes fee increments.

⁽²⁾ Includes fee increments.

Table 2: Net Finance Margin

<i>(in millions of Canadian dollars)</i>	2018	2017	2016	2015	2014
Average performing loans receivable	52,171	52,331	53,340	47,419	38,593
Average carrying value on impaired loans	425	423	485	267	239
Average finance lease assets – aircraft	3	–	10	66	70
Average operating lease assets	–	–	–	–	349
Average marketable securities balance	12,857	6,850	6,693	6,311	5,047
Average investment portfolio balance	1,259	1,069	903	787	599
Total average income earning assets	\$ 66,715	\$ 60,673	\$ 61,431	\$ 54,850	\$ 44,897
Financing and investment revenue:					
Loan	2,207	1,915	1,720	1,475	1,239
Finance lease	–	–	1	5	5
Operating lease	–	–	–	–	50
Marketable securities	257	93	73	60	45
Investments	9	9	9	8	6
Total financing and investment revenue	2,473	2,017	1,803	1,548	1,345
Interest expense	1,219	715	450	183	70
Leasing and financing related expenses	33	45	37	28	48
Net financing and investment income	\$ 1,221	\$ 1,257	\$ 1,316	\$ 1,337	\$ 1,227
Net finance margin	1.83%	2.07%	2.14%	2.44%	2.73%

Table 3: Insurance Premiums and Guarantee Fees

<i>(in millions of Canadian dollars)</i>	2018	2017	2016	2015	2014
Credit insurance product group:					
Credit insurance business facilitated	58,555	55,827	55,724	60,175	56,020
Premiums and fees earned prior to ceding reinsurance	114	112	108	110	105
Average credit insurance premium rate	0.19%	0.20%	0.19%	0.18%	0.19%
Financial institutions insurance product group:					
Financial institutions insurance business facilitated	4,259	8,205	7,421	7,666	11,415
Premiums and fees earned prior to ceding reinsurance	14	18	21	19	25
Average financial institutions insurance premium rate	0.33%	0.22%	0.28%	0.25%	0.22%
Contract insurance and bonding product group:					
Contract insurance and bonding average exposure	8,900	8,113	7,982	8,728	8,219
Premiums and fees earned	76	67	62	55	52
Average contract insurance and bonding premium rate	0.86%	0.83%	0.78%	0.63%	0.63%
Political risk insurance product group:					
Political risk insurance average exposure	897	1,154	1,328	1,610	1,676
Premiums and fees earned	10	10	9	18	20
Average political risk insurance premium rate	1.08%	0.84%	0.71%	1.12%	1.19%
Loan guarantees:					
Loan guarantees average exposure	2,832	2,565	2,395	2,148	2,068
Loan guarantee fees earned	48	43	40	41	36
Average loan guarantee fee rate	1.69%	1.68%	1.67%	1.91%	1.74%

Table 4: Provision for (Reversal of) Credit Losses

<i>(in millions of Canadian dollars)</i>	2018*	2017	2016	2015	2014
Provision for (reversal of) credit losses on:					
Loans	(18)	(90)	(4)	381	(15)
Loan commitments	10	(61)	(30)	61	(6)
Loan guarantees	(3)	32	3	(5)	(18)
Total provision for (reversal of) credit losses	\$ (11)	\$ (119)	\$ (31)	\$ 437	\$ (39)

* Current year amounts have been prepared in accordance with IFRS 9. Prior year amounts have not been restated and are prepared in accordance with IAS 39.

Table 5: Concentration of Exposure by Geographical Market

(in millions of Canadian dollars)	Financing portfolio			Insurance portfolio				Marketable securities and derivative instruments ⁽⁴⁾	2018 Exposure	
	Financing assets ⁽¹⁾	Commitments and guarantees ⁽²⁾	Credit insurance	Financial institutions insurance	Contract insurance and bonding	Political risk insurance ⁽³⁾	Reinsurance ceded		\$	%
Country										
United States	9,996	9,015	5,720	115	35	–	–	10,259	35,140	29
Canada	5,882	7,497	284	200	9,795 ⁽⁵⁾⁽⁶⁾	–	–	1,409	25,067	20
United Kingdom	4,734	2,098	367	–	1	–	–	169	7,369	6
India	4,382	490	232	16	2	7	–	–	5,129	4
Australia	3,232	712	205	2	–	–	–	775	4,926	4
Mexico	2,458	1,966	373	–	–	111	–	3	4,911	4
Chile	3,143	704	57	77	1	21	–	–	4,003	3
China	1,540	880	592	74	5	290	–	–	3,381	3
Brazil	1,615	593	524	20	100	110	–	–	2,962	2
Germany	1,919	97	166	–	3	–	–	55	2,240	2
Other ⁽⁷⁾	17,050	4,827	2,762	1,492	74	1,456	–	875	28,536	23
	55,951	28,879	11,282	1,996	10,016	1,995	–	13,545	123,664	100
Country limits in excess of policy limits ⁽³⁾	–	–	–	–	–	(1,109)	–	–	(1,109)	–
Reinsurance ceded ⁽⁸⁾	–	–	–	–	–	–	(250)	–	(250)	–
Total	\$ 55,951	\$ 28,879	\$ 11,282	\$ 1,996	\$ 10,016	\$ 886	\$ (250)	\$ 13,545	\$ 122,305	100

(in millions of Canadian dollars)	Financing portfolio			Insurance portfolio				Marketable securities and derivative instruments ⁽⁴⁾	2017 Exposure	
	Financing assets ⁽¹⁾	Commitments and guarantees ⁽²⁾	Credit insurance	Financial institutions insurance	Contract insurance and bonding	Political risk insurance ⁽³⁾	Reinsurance ceded		\$	%
Country										
United States	9,617	8,540	4,781	346	37	–	–	6,813	30,134	27
Canada	5,128	7,260	219	200	8,050 ⁽⁵⁾⁽⁶⁾	–	–	803	21,660	19
United Kingdom	5,324	1,804	283	105	13	–	–	162	7,691	7
Mexico	2,080	1,852	273	–	1	175	–	–	4,381	4
India	3,586	292	162	199	–	7	–	–	4,246	4
Australia	2,860	508	145	–	–	4	–	149	3,666	3
Chile	2,247	819	36	157	1	73	–	–	3,333	3
Brazil	2,183	343	540	49	96	104	–	–	3,315	3
China	1,681	249	413	164	2	283	–	–	2,792	3
Saudi Arabia	2,017	659	58	2	–	–	–	–	2,736	2
Other ⁽⁷⁾	15,600	5,745	2,384	2,170	97	1,802	–	602	28,400	25
	52,323	28,071	9,294	3,392	8,297	2,448	–	8,529	112,354	100
Country limits in excess of policy limits ⁽³⁾	–	–	–	–	–	(1,533)	–	–	(1,533)	–
Reinsurance ceded ⁽⁸⁾	–	–	–	–	–	–	(250)	–	(250)	–
Total	\$ 52,323	\$ 28,071	\$ 9,294	\$ 3,392	\$ 8,297	\$ 915	\$ (250)	\$ 8,529	\$ 110,571	100

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

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

⁽³⁾ Includes the sum of individual country exposures and thus exceeds the maximum liability of \$886 million (2017 – \$915 million) for all the policies in the political risk insurance product group.

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

⁽⁵⁾ Includes \$350 million of surety bond insurance, where the risk rests with the Canadian exporter (2017 – \$302 million). A total of 59% of the exports insured under surety bond products are to Brazil (2017 – 36%). The balance represents exports to other countries.

⁽⁶⁾ Includes \$9,070 million in performance security guarantees, where the risk rests with the Canadian exporter (2017 – \$7,419 million). A total of 53% of the exports insured under performance security products are to the United States (2017 – 53%). The balance represents exports to other countries.

⁽⁷⁾ Includes 172 countries (2017 – 165) with total exposure ranging from \$0.001 million to \$2,140 million (2017 – \$0.001 million to \$2,196 million).

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

Table 6: Concentration of Exposure by Industry

(in millions of Canadian dollars)	Financing portfolio			Insurance portfolio				Marketable securities and derivative instruments ⁽³⁾	2018 Exposure	
	Financing assets ⁽¹⁾	Commitments and guarantees ⁽²⁾	Credit insurance	Financial institutions insurance	Contract insurance and bonding	Political risk insurance	Reinsurance ceded		\$	%
Industry										
Commercial:										
Oil and gas	8,242	7,199	687	–	873	176	–	–	17,177	14
Financial institutions	5,543	1,980	335	1,996	3,047	195	–	2,957	16,053	13
Aerospace	10,718	3,014	579	–	450	26	–	–	14,787	12
Infrastructure and environment	6,743	2,915	1,182	–	2,723	353	–	–	13,916	11
Mining	6,008	2,983	2,143	–	1,525	18	–	–	12,677	10
Surface transportation	5,580	3,940	1,191	–	572	73	–	–	11,356	9
Information and communication technologies	6,837	1,983	1,058	–	252	34	–	–	10,164	9
Light manufacturing	3,205	2,764	1,933	–	252	11	–	–	8,165	7
Resources	2,035	1,921	2,174	–	322	–	–	–	6,452	5
Total commercial	54,911	28,699	11,282	1,996	10,016	886	–	2,957	110,747	90
Sovereign	1,040	180	–	–	–	–	–	10,588	11,808	10
	55,951	28,879	11,282	1,996	10,016	886	–	13,545	122,555	100
Reinsurance ceded ⁽⁴⁾	–	–	–	–	–	–	(250)	–	(250)	–
Total	\$ 55,951	\$ 28,879	\$ 11,282	\$ 1,996	\$ 10,016	\$ 886	\$ (250)	\$ 13,545	\$ 122,305	100

(in millions of Canadian dollars)	Financing portfolio			Insurance portfolio				Marketable securities and derivative instruments ⁽³⁾	2017 Exposure	
	Financing assets ⁽¹⁾	Commitments and guarantees ⁽²⁾	Credit insurance	Financial institutions insurance	Contract insurance and bonding	Political risk insurance	Reinsurance ceded		\$	%
Industry										
Commercial:										
Oil and gas	7,348	8,249	577	–	656	81	–	–	16,911	15
Financial institutions	6,045	1,332	137	3,392	2,836	247	–	1,679	15,668	14
Aerospace	12,034	2,287	630	–	315	40	–	–	15,306	14
Mining	6,488	2,678	2,146	–	1,397	20	–	–	12,729	11
Infrastructure and environment	4,862	3,304	787	–	1,739	401	–	–	11,093	10
Surface transportation	5,064	3,964	1,093	–	605	68	–	–	10,794	10
Information and communication technologies	5,866	2,674	739	–	261	35	–	–	9,575	9
Light manufacturing	2,142	1,735	1,492	–	223	23	–	–	5,615	5
Resources	1,190	1,354	1,693	–	265	–	–	–	4,502	4
Total commercial	51,039	27,577	9,294	3,392	8,297	915	–	1,679	102,193	92
Sovereign	1,284	494	–	–	–	–	–	6,850	8,628	8
	52,323	28,071	9,294	3,392	8,297	915	–	8,529	110,821	100
Reinsurance ceded ⁽⁴⁾	–	–	–	–	–	–	(250)	–	(250)	–
Total	\$ 52,323	\$ 28,071	\$ 9,294	\$ 3,392	\$ 8,297	\$ 915	\$ (250)	\$ 8,529	\$ 110,571	100

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

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

⁽³⁾ Includes cash. Exposure does not take into consideration any collateral or the effect of any master netting agreements with derivative counterparties.

⁽⁴⁾ Represents treaty reinsurance agreements covering most bonding obligors and the short-term export credit insurance portfolio, including most foreign bank exposures.

Table 7: Individually Impaired Gross Loans Receivable

<i>(in millions of Canadian dollars)</i>	2018	2017
Commercial:		
Mining	349	329
Aerospace	151	102
Infrastructure and environment	139	103
Resources	70	89
Oil and gas	63	50
Light manufacturing	35	36
Information and communication technologies	24	196
Surface transportation	23	1
Total commercial	854	906
Sovereign:		
Iran	8	8
Venezuela	1	1
Total sovereign	9	9
Total impaired gross loans receivable	\$ 863	\$ 915

Table 8: Performing Loans – Allowance for Credit Losses

<i>(in millions of Canadian dollars)</i>	2018 ⁽¹⁾			2017		
Industry of risk	Exposure	Allowance	Allowance as a percentage of exposure	Exposure	Allowance	Allowance as a percentage of exposure
Commercial:						
Oil and gas	15,366	89	0.6	15,504	155	1.0
Infrastructure and environment	8,904	82	0.9	7,524	104	1.4
Aerospace ⁽²⁾	13,613	78	0.6	14,255	334	2.3
Mining	8,632	69	0.8	8,830	126	1.4
Information and communication technologies	8,161	50	0.6	7,752	60	0.8
Light manufacturing	5,220	35	0.7	3,165	58	1.8
Surface transportation	9,495	22	0.2	9,013	31	0.3
Resources	3,723	18	0.5	2,346	16	0.7
Financial institutions	7,522	9	0.1	7,376	29	0.4
Total commercial	80,636	452	0.6	75,765	913	1.2
Sovereign	1,211	15	1.2	1,769	18	1.0
Total	\$ 81,847	\$ 467	0.6	\$ 77,534	\$ 931	1.2

⁽¹⁾ Current year amounts have been prepared in accordance with IFRS 9. Prior year amounts have not been restated and are prepared in accordance with IAS 39.

⁽²⁾ Includes other assets exposure of \$32 million (2017 – \$36 million) and allowance on other assets of \$3 million (2017 – \$4 million).

Table 9: Investments

<i>(in millions of Canadian dollars)</i>	Investments financing	Undisbursed commitments	2018 Exposure		2017 Exposure	
Gross exposure			\$	%	\$	%
Domestic market	652	294	946	46	941	49
Other advanced economies	72	119	191	9	91	5
Emerging markets	618	323	941	45	877	46
Total	\$ 1,342	\$ 736	\$ 2,078	100	\$ 1,909	100

Table 10: Claims – Size Concentration

<i>(in millions of Canadian dollars)</i>	2018				2017			
	\$ of claims paid	Number of claims paid	\$ of claims recoveries	Number of claims with recoveries	\$ of claims paid	Number of claims paid	\$ of claims recoveries	Number of claims with recoveries
\$0 – \$100,000	16	1,013	3	363	12	567	3	242
\$100,001 – \$1 million	30	116	10	32	35	107	8	28
Over \$1 million	28	11	43	8	154	25	33	11
Total	\$ 74	1,140	\$ 56	403	\$ 201	699	\$ 44	281

CONSOLIDATED FINANCIAL STATEMENTS

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FINANCIAL REPORTING RESPONSIBILITY

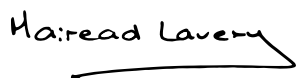
The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with International Financial Reporting Standards appropriate in the circumstances. The integrity and objectivity of the data in these consolidated financial statements are management's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

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

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

Contracts which, in our opinion, involve risks in excess of that which we would normally undertake, may be entered into under the authority of the Minister of International Trade Diversification and the Minister of Finance where the Minister of International Trade Diversification considers them to be in the national interest. Funds required for such contracts are paid to EDC by the Minister of Finance out of the Consolidated Revenue Fund, and funds recovered are remitted to the Consolidated Revenue Fund, net of amounts withheld to cover related administrative expenses. These transactions, which are known as Canada Account transactions, are shown in Note 35 to our consolidated financial statements, and the responsibility of the Board of Directors for these transactions is limited to the management of the administration thereof by EDC.

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



Mairead Lavery
President and Chief Executive Officer

February 28, 2019



Ken Kember
Senior Vice-President and Chief Financial Officer



Ken Kember
Senior Vice-President and Chief Financial Officer



Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of International Trade Diversification

Report on the Audit of the Consolidated Financial Statements

OPINION

We have audited the consolidated financial statements of Export Development Canada (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

BASIS FOR OPINION

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

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report, and the information in the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which is expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the information in the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

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

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

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

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

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

Report on Compliance with Specified Authorities

OPINION

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

In our opinion, the transactions of Export Development Canada and its wholly owned subsidiaries that came to our notice during the audit of the consolidated financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied, except for the change in the method of accounting for financial instruments as explained in Note 2 (a) to the consolidated financial statements, on a basis consistent with that of the preceding year.

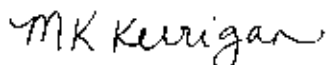
RESPONSIBILITIES OF MANAGEMENT FOR COMPLIANCE WITH SPECIFIED AUTHORITIES

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

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

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

The engagement leader on the audit resulting in this independent auditor's report is Mary Katie Kerrigan.



Mary Katie Kerrigan, CPA, CA

Principal

for the Auditor General of Canada

Ottawa, Canada

28 February 2019

Export Development Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at December 31

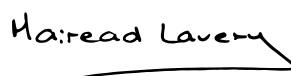
<i>(in millions of Canadian dollars)</i>	Notes	2018	2017
Assets			
Cash		170	157
Marketable securities	3	13,119	8,057
Derivative instruments	14	256	315
Assets held for sale	6	13	34
Loans receivable	4	54,566	51,127
Allowance for losses on loans	4	(820)	(1,363)
Investments	5	1,342	1,124
Recoverable insurance claims	7	35	65
Reinsurers' share of premium and claims liabilities	16	150	103
Other assets	8	170	138
Retirement benefit assets	33	92	69
Property, plant and equipment	9	50	54
Intangible assets	10	110	106
Building under finance lease	11	127	134
Total Assets		\$ 69,380	\$ 60,120
Liabilities and Equity			
Accounts payable and other credits	12	226	123
Loans payable	13	55,448	47,114
Derivative instruments	14	1,971	1,690
Obligation under finance lease	11	150	154
Retirement benefit obligations	33	172	185
Allowance for losses on loan commitments	4	20	14
Premium and claims liabilities	16	890	608
Loan guarantees	4, 18	158	192
Total Liabilities		59,035	50,080
<i>Financing commitments (Note 17) and contingent liabilities (Note 18)</i>			
Share capital	20	1,333	1,333
Retained earnings		9,012	8,707
Total Equity		10,345	10,040
Total Liabilities and Equity		\$ 69,380	\$ 60,120

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 February 28, 2019.



Robert S. McLeese
Director



Mairead Lavery
Director

Export Development Canada

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended December 31

(in millions of Canadian dollars)

	Notes	2018	2017
Financing and Investment Revenue:			
Loan	26	2,207	1,915
Marketable securities		257	93
Investments		9	9
Total financing and investment revenue		2,473	2,017
Interest expense	27	1,219	715
Financing related expenses	28	33	45
Net Financing and Investment Income		1,221	1,257
Loan Guarantee Fees		48	43
Insurance premiums and guarantee fees		243	239
Reinsurance ceded		(39)	(39)
Net Insurance Premiums and Guarantee Fees	29	204	200
Other (Income) Expense	31	(98)	34
Administrative Expenses	32	497	431
Income before Provision and Claims-Related Expenses		1,074	1,035
Reversal of Provision for Credit Losses	4	(11)	(119)
Claims-Related Expenses	30	255	157
Net Income		830	997
Other comprehensive income:			
Retirement benefit plans remeasurement	33	44	66
Comprehensive Income		\$ 874	\$ 1,063

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

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

Export Development Canada

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended December 31

<i>(in millions of Canadian dollars)</i>	Notes	2018	2017
Share Capital	20	1,333	1,333
Retained Earnings			
Balance beginning of year		8,707	8,430
IFRS 9 impairment transition adjustment	2	400	–
Revised balance beginning of year		9,107	8,430
Net income		830	997
Other comprehensive income			
Retirement benefit plans remeasurement		44	66
Dividend paid	20	(969)	(786)
Balance end of year		9,012	8,707
Total Equity End of Year		\$ 10,345	\$ 10,040

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

Export Development Canada
CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended December 31

<i>(in millions of Canadian dollars)</i>	2018	2017
Cash Flows from (used in) Operating Activities		
Net income	830	997
Adjustments to determine net cash from (used in) operating activities		
Reversal of provision for credit losses	(11)	(119)
Change in the net allowance for claims on insurance	197	3
Depreciation and amortization	40	36
Realized (gains) and losses	(12)	(7)
Changes in operating assets and liabilities		
Change in accrued interest and fees on loans receivable	(118)	(67)
Change in accrued interest and fair value of marketable securities	(14)	33
Change in accrued interest and fair value of loans payable	57	(79)
Change in derivative instruments	(11)	(283)
Other	104	(13)
Loan disbursements	(31,240)	(27,743)
Loan repayments and principal recoveries from loan asset sales	31,021	29,284
Net cash from operating activities	843	2,042
Cash Flows from (used in) Investing Activities		
Disbursements for investments	(268)	(270)
Receipts from investments	260	141
Purchases of marketable securities	(14,518)	(7,123)
Sales/maturities of marketable securities	11,479	5,604
Purchases of property, plant and equipment	(5)	(13)
Purchases of intangible assets	(28)	(33)
Net cash used in investing activities	(3,080)	(1,694)
Cash Flows from (used in) Financing Activities		
Issue of long-term loans payable	13,128	12,847
Repayment of long-term loans payable	(12,058)	(10,084)
Issue of short-term loans payable	31,515	27,156
Repayment of short-term loans payable	(27,651)	(29,441)
Disbursements from sale/maturity of derivative instruments	(567)	(345)
Receipts from sale/maturity of derivative instruments	3	88
Dividend paid	(969)	(786)
Net cash from (used in) financing activities	3,401	(565)
Effect of exchange rate changes on cash and cash equivalents	155	(47)
Net increase (decrease) in cash and cash equivalents	1,319	(264)
Cash and cash equivalents		
Beginning of year	1,627	1,891
End of year	\$ 2,946	\$ 1,627
Cash and cash equivalents are comprised of:		
Cash	170	157
Cash equivalents included within marketable securities	2,776	1,470
	\$ 2,946	\$ 1,627
Operating Cash Flows from Interest		
Cash paid for interest	\$ 1,052	\$ 622
Cash received for interest	\$ 2,275	\$ 1,798

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Mandate

Export Development Canada (“EDC”, “we” or “our”) was created in 1944 as Canada’s export credit agency (ECA). On October 1, 1969, EDC was established as a Crown corporation by a statute of the Parliament of Canada, the *Export Development Act* (the “Act”). EDC’s mandate is to support and develop, directly or indirectly, Canada’s export trade, and Canadian capacity to engage in that trade and respond to international business opportunities, as well as to provide development financing and other forms of development support in a manner consistent with Canada’s international development priorities.

EDC is named in Part I of Schedule III to the *Financial Administration Act* (the “FA Act”) and is accountable for its affairs to Parliament through the Minister of International Trade Diversification (the “Minister”).

In September 2008, EDC, together with other federal Crown corporations, was given a directive (PC 2008-1598) pursuant to Section 89 of the FA Act, entitled Order giving a direction to parent Crown corporations involved in commercial lending to give due consideration to the personal integrity of those they lend to or provide benefits to, in accordance with the Federal Government’s policy to improve the accountability and integrity of federal institutions. Following its issuance EDC implemented the Directive and the President and Chief Executive Officer of EDC notified the Minister in accordance with Subsection 89(6) of the FA Act.

In December 2014, the Governor in Council issued a directive (PC 2014-1381) that requires EDC to implement pension plan reforms. These pension reforms are intended to ensure that pension plans of Crown corporations provide a 50:50 current service cost-sharing ratio between employee and employer for pension contributions, to be phased in for all members by December 31, 2017. EDC has taken action to implement the spirit and intent of these reforms, such as raising the normal age at which an employee can retire with a full pension. We submitted a business case pursuant to an established process to request an exemption from equal cost sharing, given the closure of our Defined Benefit pension plan and introduction of a Defined Contribution pension plan. On February 13, 2017, approval of the business case was granted by way of a new directive (PC 2017-127) which repeals the original pension plan reform directive issued in 2014. The new directive only requires that the normal age of retirement be increased to 65, for which EDC is already in compliance. Also, consistent with the business case and in the spirit of the pension reforms, EDC has implemented higher contribution rates for Defined Benefit employees effective December 24, 2017 for an equitable and more balanced cost-sharing.

In July 2015, EDC, together with other federal Crown corporations, was issued a directive (PC 2015-1110) pursuant to Section 89 of the FA Act to align our travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with our legal obligations. We have complied with the directive in a way that does not hinder our ability to deliver on our mandate for Canadian companies and reported on the implementation of this directive in our 2017 Corporate Plan.

In June 2018, EDC was issued a directive (PC 2018-683) pursuant to Section 89 of the FA Act to perform any activity consistent with any authorization obtained from the Minister of International Trade pursuant to Section 23 of the Act (Canada Account) in respect of the project known as the Trans Mountain Pipeline Expansion (the “Project”). We have complied with the directive by performing all required activities described in the authorization obtained from the Minister of International Trade on June 5, 2018 as amended by the authorization obtained from the Minister of International Trade Diversification on July 27, 2018.

The Government of Canada is the sole shareholder of EDC.

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

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

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

We are subject to a limit imposed by the Act on our contingent liability arrangements. The Act specifies that the limit applies to the principal amount owing under all outstanding arrangements which have the effect of providing, to any person, any insurance, reinsurance, indemnity or guarantee. This limit shall at no time exceed the greater of an amount equal to 10 times our authorized capital and \$45.0 billion which amount may be varied in an Appropriation Act. At the end of December 2018, the amount of these contingent liabilities was \$27.2 billion (2017 – \$24.3 billion).

We are for all purposes an agent of Her Majesty in right of Canada. As a result, all obligations under debt instruments we issue are obligations of Canada. The Act allows us to borrow and have outstanding borrowings up to a maximum of 15 times the aggregate of (a) our current paid-in capital and (b) our retained earnings determined in accordance with the previous year's audited financial statements. The maximum applicable to December 31, 2018 is \$150.6 billion (2017 – \$146.4 billion), against which borrowings amounted to \$55.4 billion (2017 – \$47.1 billion).

2. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

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

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

The following amendments issued by the IASB have been assessed as being relevant to EDC. The changes were adopted for the annual period beginning on January 1, 2018.

IFRS 9 – Financial Instruments – In July 2014, the IASB issued the final version of *IFRS 9 – Financial Instruments*, which was applicable for reporting periods beginning on or after January 1, 2018 and replaced the guidance in *IAS 39 – Financial Instruments: Recognition and Measurement*. We early adopted the classification and measurement requirements of IFRS 9 upon transition to IFRS in 2011 and do not apply hedge accounting to our derivatives, and we implemented the impairment requirements on January 1, 2018.

IFRS 9 does not require restatement of comparative period financial statements except in limited circumstances relating to the hedge accounting provisions of the standard. We chose not to restate comparative figures on transition and recognized the measurement difference of \$400 million through an adjustment to opening retained earnings.

The impairment requirements under IFRS 9 are calculated using an expected credit loss (ECL) model as opposed to the incurred loss model under IAS 39 and impacts the allowance on our loans receivable, loan commitments and loan guarantees.

Transition Impact

The following table reconciles the closing allowance for losses under IAS 39 to the opening allowance for losses under IFRS 9 as at January 1, 2018:

(in millions of Canadian dollars)	Allowance for losses under IAS 39 as at December 31, 2017			Transition Adjustment	Allowance for losses under IFRS 9 as at January 1, 2018			
	Collective	Individual	Total		Stage 1	Stage 2	Stage 3	Total
Allowance for losses on loans	835	528	1,363	(339)	113	388	523	1,024
Allowance for losses on loan commitments	14	–	14	(5)	4	5	–	9
Allowance for losses on loan guarantees	82	53	135	(56)	16	9	54	79
Total	\$ 931	\$ 581	\$ 1,512	\$ (400)	\$ 133	\$ 402	\$ 577	\$ 1,112

IFRS 7 – Financial Instruments: Disclosures – In July 2014, the IASB issued amendments to the standard requiring entities to provide additional qualitative and quantitative disclosure when an entity applies IFRS 9. As EDC implemented IFRS 7 amendments related to classification and measurement in 2011, only amendments related to impairment disclosures are required. These disclosures are presented with the allowance for losses in Note 4. The amendments were effective for reporting periods beginning on or after January 1, 2018.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration – In December 2016, the IASB issued this interpretation to provide guidance on how to determine the “date of the transaction” for purposes of identifying the exchange rate to use in transactions within the scope of *IAS 21 – The Effects of Changes in Foreign Exchange Rates* involving the payment or receipt of consideration in advance. The interpretation, which was effective for reporting periods beginning on or after January 1, 2018, did not have a significant impact to EDC.

IFRS 15 – Revenue from Contracts with Customers – In May 2014, the IASB issued the new standard which establishes a comprehensive framework for the recognition, measurement and disclosure of revenue and cash flows arising from an entity’s contracts with customers except for revenue arising from items such as financial instruments, insurance contracts and leases. The standard did not impact EDC’s financial results as the majority of EDC’s revenue from contracts adhere to other IFRS. The standard was effective for reporting periods beginning on or after January 1, 2018.

(b) Standards, amendments and interpretations not yet in effect

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

IFRS 16 – Leases – In January 2016, the IASB released the new Leases standard requiring lessees to recognize assets and liabilities for the rights and obligations created by leases. On transition, we will apply the practical expedient not to reassess whether all existing contracts are, or contain, a lease at the date of initial application, and to apply this Standard to contracts that were previously identified as leases under *IAS 17 – Leases*, and *IFRIC 4 – Determining whether an Arrangement contains a Lease*. We have also chosen not to restate comparative figures on transition, as permitted by the Standard, and will recognize a measurement difference through an adjustment to opening retained earnings. We do not expect this adjustment to be material.

IAS 19 – Employment Benefits – In February 2018, the IASB issued amendments to this standard requiring current service cost and net interest to be determined using the assumptions used for the remeasurement if a plan amendment, curtailment or settlement occurs. Amendments also require the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling be clarified. The amendments are effective for reporting periods beginning on or after January 1, 2019. EDC does not anticipate any plan amendment, curtailment or settlement in the foreseeable future. If such an event were to occur in the future, it would have an impact on the consolidated financial statements.

IFRS 17 – Insurance Contracts – In May 2017, the IASB issued IFRS 17 which establishes recognition, measurement, presentation, and disclosure requirements of insurance contracts. The standard requires entities to measure the contract liabilities using their current fulfillment cash flows and revenue to be recognized using one of three methods. In November 2018, the IASB provisionally decided to defer the IFRS 17 effective date by one year resulting in the standard being effective for reporting periods beginning on or after January 1, 2022. We continue to assess the impact of this standard on our consolidated financial statements.

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 are effective for annual periods beginning on or after January 1, 2020 with early application permitted. We do not anticipate that the clarification to the definition of materiality will result in any changes to the consolidated financial statements.

USE OF ESTIMATES AND KEY JUDGMENTS

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

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

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

Estimates

Note 4 – Loans and Allowance for Credit Losses

The allowance for credit losses represents management's best estimate of probable credit losses. These estimates are reviewed periodically during the year and in detail as at the date of the financial statements.

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

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

Note 6 – Assets Held for Sale

When assets are returned to us as a result of default under the related obligors' loan agreements, they are measured at the lower of their carrying amount and fair value less costs to sell. At each reporting period, we estimate the recoverable amount of these assets by obtaining market values from an independent appraiser supplemented by additional current market data and other information available to us. Any difference between the carrying value and fair value less cost to sell is recorded as an impairment of aircraft in other (income) expenses.

Note 7 – Recoverable Insurance Claims

When an insurance claim is paid, management estimates any future recovery and records it within recoverable insurance claims. The estimation process is dependent upon our assessment of the future cash flows to be realized through collection efforts made by us, the policyholder or collection agencies. The estimated recoverable amount is reviewed and adjusted on a quarterly basis.

Note 16 – Premium and Claims Liabilities

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

Note 22 – Fair Value of Financial Instruments

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

Our financial instruments are categorized into one of three levels based on whether the techniques employed to value the instruments use observable or unobservable market inputs. Financial instruments categorized as Level 1 are valued using quoted market prices, thus minimal estimation is required. Those instruments categorized as Level 2 and 3 require the use of greater estimation and judgment as they may include inputs that are not based on observable market data. Refer to Note 22 for additional details on the techniques used to value our financial instruments.

Note 33 – Retirement Benefit Plans

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

Judgments**Note 4 – Loans and Allowance for Credit Losses**

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

Note 16 – Premium and Claims Liabilities

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

Note 22 – Fair Value of Financial Instruments

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

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

Note 25 – Structured Entities

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

Note 33 – Retirement Benefit Plans

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

CASH AND CASH EQUIVALENTS

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

MARKETABLE SECURITIES

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

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

LOANS RECEIVABLE

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

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

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

LOAN GUARANTEES

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

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

ALLOWANCE FOR CREDIT LOSSES

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

Financial instruments subject to an impairment assessment include loans held at amortized cost. The allowance for credit losses related to loans receivable is presented in the allowance for losses on loans receivable in the consolidated statement of financial position.

Off-balance sheet items subject to an impairment assessment include loan commitments and loan guarantees. The allowance for credit losses related to loan commitments is presented in the allowance for losses on loan commitments and the allowance for credit losses related to loan guarantees are included in the liability for loan guarantees in the consolidated statement of financial position.

Changes in the allowance for credit losses as a result of originations, repayments and maturities, changes in risk parameters, remeasurements and modifications are recorded in the provision for (reversal of) credit losses in our consolidated statement of comprehensive income.

Expected Credit Loss Impairment Model

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

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

Impairment and Write-off of Financial Instruments

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

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

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

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

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

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

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

Measurement of Expected Credit Losses

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

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

In determining the expected life of a financial instrument, the contractual terms as well as significant judgements on historical behaviour patterns are considered. In order to satisfy the requirements of IFRS 9, we leverage the risk inputs from our existing regulatory capital models and make adjustments, where appropriate.

Forward-Looking Information

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

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

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

Significant Increase in Credit Risk

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

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

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

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

Modifications

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

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

FORECLOSED ASSETS

Assets that are returned to us⁽¹⁾ because of default under loan agreements are classified as held for use or held for sale according to management's intention. Those classified as held for use have been placed under long-term finance leases or are held as equipment available for lease and are included within other assets. Those classified as held for sale include aircraft or component parts held for sale and are recorded initially at fair value less costs to sell. Any write-downs at recognition are reported in the provision for (reversal of) 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. Subsequent impairment losses or reversals of impairment losses are determined as the difference between the carrying amount and the recoverable amount and are recorded in other (income) expenses.

INVESTMENTS

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

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

FINANCE LEASES

EDC applies *IAS 17 – Leases* in accounting for finance leases, both where EDC is the lessor or the lessee. A finance lease is a lease which transfers substantially all the risks and rewards of the leased assets on the lessee.

Lessor

Aircraft under finance leases relate to aircraft that were returned to us due to default under the related obligor's loan agreements and were subsequently placed under long-term finance leases. These leases are recorded on the consolidated statement of financial position within other assets 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 123.

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

Lessee

Our head office building is held under a finance lease. The building has been recorded on our consolidated statement of financial position at its estimated fair value at the inception of the lease. Lease payments are allocated between finance charges and repayment of the obligation under finance lease to achieve a constant rate of interest on the remaining balance of the obligation. The leased building is being depreciated over the most likely lease term of 25 years. The estimated lease period is reviewed periodically.

Finance charges and depreciation expense on the building are recorded as occupancy costs within administrative expenses in the consolidated statement of comprehensive income.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets or the term of the relevant lease. The estimated useful lives and depreciation methods are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. The useful life used in the calculation of depreciation for furniture and equipment is five years and 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 from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in other (income) expenses.

INTANGIBLE ASSETS

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

INSURANCE PREMIUMS

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

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

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 quarterly basis with any subsequent net gain or loss on recovery credited or charged to claims-related expenses.

PREMIUM AND CLAIMS LIABILITIES

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

Deferred insurance premiums are the portion of premiums received on policies written that relate to risk periods after the current fiscal year and are amortized over the remaining term of the related policies. To the extent that our deferred premiums are not sufficient to cover our liability, an allowance is established. Any adjustments to the liability 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.

Premium and claims liabilities on our consolidated statement of financial position include both the deferred premiums and the allowance for claims on insurance.

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 reinsurers' share of premium and claims liabilities. Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire.

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

DERIVATIVE INSTRUMENTS

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

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

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

LOANS PAYABLE

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

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.

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

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

ACCOUNTS PAYABLE AND OTHER CREDITS

Accounts payable and other credits are carried at amortized cost.

TRANSLATION OF FOREIGN CURRENCY

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars, EDC's functional and presentation currency, at exchange rates prevailing at the end of the year. Income and expenses are translated at either daily or monthly average exchange rates in effect during the year. Exchange gains and losses resulting from the translation of foreign currency balances and transactions are included in other (income) expenses.

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

RETIREMENT BENEFIT PLANS

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

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).

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

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

3. Marketable Securities

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

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

(in millions of Canadian dollars)	Dec. 31, 2018	Dec. 31, 2017
U.S. government	9,283	6,097
Financial institutions	2,532	1,207
Other governments	1,304	753
Total marketable securities	\$ 13,119	\$ 8,057

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

(in millions of Canadian dollars)	Dec. 31, 2018				Dec. 31, 2017			
	Remaining term to maturity				Remaining term to maturity			
	Under 1 year	1 to 3 years	Over 3 years	Total	Under 1 year	1 to 3 years	Over 3 years	Total
Short-term instruments*	6,347	–	–	6,347	3,822	–	–	3,822
Long-term fixed rate securities	311	2,973	3,488	6,772	59	1,936	2,240	4,235
Total marketable securities	\$ 6,658	\$ 2,973	\$ 3,488	\$ 13,119	\$ 3,881	\$ 1,936	\$ 2,240	\$ 8,057

* Includes securities considered cash equivalents for the consolidated statement of cash flows of \$2,776 million (2017 – \$1,470 million).

4. Loans and Allowance for Credit Losses

LOANS RECEIVABLE

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

(in millions of Canadian dollars)		Dec. 31, 2018					Dec. 31, 2017				
		Floating \$	Spread to maturity %	Fixed \$	Yield to maturity %	Total \$	Floating \$	Spread to maturity %	Fixed \$	Yield to maturity %	Total \$
Performing:											
	Past due	62	1.91	18	4.57	80 ⁽¹⁾	9	8.41	90	5.31	99 ⁽²⁾
	2018	–	–	–	–	–	5,634	1.57	2,251	3.77	7,885
	2019	5,560	2.01	1,840	4.02	7,400	6,619	1.94	1,770	4.36	8,389
	2020	5,864	1.77	1,762	3.86	7,626	6,798	1.82	1,636	3.81	8,434
	2021	7,117	1.71	2,203	2.89	9,320	6,104	1.87	1,928	2.80	8,032
	2022	7,983	1.82	1,780	3.79	9,763	5,880	1.74	982	3.96	6,862
	2023	4,861	1.82	1,218	3.93	6,079	1,516	2.10	842	4.16	2,358
	2024 – 2028	6,955	2.18	3,493	3.82	10,448	4,322	2.57	2,083	4.12	6,405
	2029 and beyond	1,026	2.20	2,004	3.05	3,030	842	2.32	978	2.59	1,820
Performing gross loans receivable		39,428	1.96	14,318	3.47	53,746 ⁽³⁾	37,724	2.07	12,560	3.49	50,284
Impaired		539	3.43	324	5.95	863	465	3.34	450	3.65	915
Gross loans receivable		\$ 39,967		\$ 14,642		\$ 54,609	\$ 38,189		\$ 13,010		\$ 51,199
Accrued interest and fees receivable						272					241
Deferred loan revenue and other						(315)					(313)
Loans receivable						\$ 54,566					\$ 51,127

⁽¹⁾ \$78 million of receivables were less than 30 days past due.

⁽²⁾ All receivables were less than 30 days past due.

⁽³⁾ Includes one originated credit-impaired loan of \$56 million.

At the end of 2018, the floating rate performing gross loans receivable yield was 4.46% (2017 – 3.52%) with an average term to reset of 103 days (2017 – 87 days).

Sovereign loans represented 2% of total performing gross loans receivable (2017 – 2%).

We had country risk concentrations as outlined below:

(in millions of Canadian dollars)		Dec. 31, 2018		Dec. 31, 2017	
Country	Performing gross loans receivable*	%	Country	Performing gross loans receivable	%
United States	9,885	18	United States	9,250	18
Canada	5,049	9	Canada	4,406	9
India	4,323	8	United Kingdom	3,778	8
Chile	3,621	7	India	3,680	7
Australia	3,232	6	Mexico	2,954	6
United Kingdom	3,161	6	Chile	2,901	6
Mexico	3,031	6	Australia	2,860	6
Saudi Arabia	2,010	4	Brazil	2,144	4
Germany	1,904	3	Saudi Arabia	2,017	4
Brazil	1,524	3	Germany	1,524	3
Other	16,006	30	Other	14,770	29
Total	\$ 53,746	100	Total	\$ 50,284	100

* Includes one originated credit-impaired loan of \$56 million.

Our most significant single counterparty performing gross loans receivable at the end of 2018 were as follows:

- four mining sector obligors totalling \$3,962 million (2017 – four obligors totalling \$4,121 million), two located in Chile, one in Mongolia and one in the United Arab Emirates;
- three oil and gas sector obligors totalling \$2,755 million (2017 – three obligors totalling \$3,094 million) located in Mexico, India and Saudi Arabia;
- one information and communication technologies sector obligor located in the United States for \$1,524 million (2017 – one obligor for \$1,383 million);
- one aerospace sector obligor located in the United States for \$1,173 million (2017 – three obligors totalling \$3,110 million); and
- one surface transportation sector obligor located in the United Kingdom for \$957 million (2017 – nil).

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

(in millions of Canadian dollars)	2018	2017
Balance beginning of year	51,199	55,375
Disbursements	31,240	27,743
New origination due to modification	56	–
Principal repayments	(30,795)	(28,785)
Principal recoveries from loan asset sales	(226)	(499)
Derecognition due to modification	(193)	–
Loans written off	(119)	(43)
Transferred to held for sale	–	(5)
Capitalized interest	9	5
Foreign exchange translation	3,438	(2,592)
Balance end of year	\$ 54,609	\$ 51,199

In 2018, we sold \$218 million (2017 – \$523 million) in performing loans to various counterparties in which we recovered \$214 million (2017 – \$499 million) and the remaining \$4 million (2017 – \$24 million) was written off. We also sold a \$58 million (2017 – nil) impaired loan for which we recovered \$12 million (2017 – nil).

INDIVIDUALLY IMPAIRED LOANS RECEIVABLE

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

(in millions of Canadian dollars)	Dec. 31, 2018	Dec. 31, 2017
Gross loans receivable		
Commercial	854	906
Sovereign	9	9
	863	915
Less: Deferred loan revenue and other	20	17
Individual allowance	408	528
Carrying amount of individually impaired loans	\$ 435	\$ 370

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

(in millions of Canadian dollars)	2018	2017
Balance beginning of year	915	1,037
Loans classified as impaired	210	69
New origination due to modification	56	–
Disbursements on loan guarantees called	44	9
Capitalized interest	3	1
Derecognition due to modification	(193)	–
Loans written off	(115)	(19)
Loans reinstated to performing ⁽¹⁾	(63)	(101)
Principal repayments	(57)	(20)
Principal recoveries from loan sales	(12)	–
Transfer to assets held for sale ⁽²⁾	–	(5)
Foreign exchange translation	75	(56)
Balance end of year	\$ 863	\$ 915

⁽¹⁾ Includes loans that were made performing following the restructuring of credit agreements.

⁽²⁾ Refer to Note 6.

In 2018, we had \$210 million of loans made impaired (2017 – \$69 million) from 20 commercial borrowers (2017 – 14 commercial borrowers and one sovereign borrower).

During the year, due to a modification of the contractual terms of a loan, we derecognized \$193 million in gross loans receivable as well as the specific allowance of \$137 million. At the time of origination, the new loan was considered credit-impaired and we recognized the new loan at its credit impaired carrying value of \$56 million.

During the year, impaired loans to 24 commercial borrowers totalling \$115 million of principal (2017 – 20 commercial borrowers totalling \$19 million) were written off. These loans were written off after all collection methods had been exhausted and no further prospect of recovery was likely.

In 2018, we had \$63 million of loans return to performing status which related to two obligors (2017 – \$101 million of loans related to four obligors).

Interest income recognized on impaired loans was \$21 million in 2018 (2017 – \$19 million).

EXPOSURE BY CREDIT GRADE

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

(in millions of Canadian dollars)	Dec. 31, 2018					Dec. 31, 2017	
	Non-credit-impaired		Credit-impaired	\$	% of total	\$	% of total
	Stage 1	Stage 2	Stage 3				
Gross loans receivable							
Investment grade*	23,144	1,871	–	25,015	46%	25,642	50%
Non-investment grade	17,012	11,663	–	28,675	52%	24,642	48%
Individually impaired	–	–	863	863	2%	915	2%
Originated credit-impaired	–	–	56	56	–	–	–
Total gross loans receivable	\$ 40,156	\$ 13,534	\$ 919	\$ 54,609	100%	\$ 51,199	100%
Loan commitments							
Investment grade*	11,832	1,248	–	13,080	63%	13,892	67%
Non-investment grade	5,050	2,634	–	7,684	37%	6,892	33%
Individually impaired	–	–	14	14	–	–	–
Total loan commitments	\$ 16,882	\$ 3,882	\$ 14	\$ 20,778	100%	\$ 20,784	100%
Loan guarantees							
Investment grade*	316	400	–	716	22%	712	27%
Non-investment grade	2,011	486	–	2,497	76%	1,832	70%
Individually impaired	–	–	61	61	2%	72	3%
Total loan guarantees	\$ 2,327	\$ 886	\$ 61	\$ 3,274	100%	\$ 2,616	100%

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

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

As at the end of 2018, 20% of our loan exposure was collateralized mainly by aircraft and rolling stock (2017 – 24%). For our aerospace portfolio, we obtain third party assessments of each aircraft's value, when available. The estimated value of our aircraft collateral at the end of 2018 was \$9,187 million (2017 – \$9,626 million). For the remainder of our secured portfolio, we rely on the latest available financial statements of the obligor and/or guarantor to estimate the collateral. The value of collateral on our impaired portfolio is \$168 million (2017 – \$120 million).

Our concentrations of risk are managed by obligor, country and industry sector. The maximum gross loans receivable exposure to any one obligor at the end of 2018 was \$1,524 million (2017 – \$1,399 million). After consideration of unfunded loan participations and loan default insurance, the maximum net exposure to any one obligor was \$1,182 million (2017 – \$1,052 million).

ALLOWANCE FOR CREDIT LOSSES

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

(in millions of Canadian dollars)	Dec. 31, 2018 ⁽¹⁾			Dec. 31, 2017 ⁽¹⁾		
	Gross carrying amount	Allowance for losses ⁽²⁾	Net carrying amount	Gross carrying amount	Allowance for losses ⁽²⁾	Net carrying amount
Loans receivable	54,609	820	53,789	51,199	1,363	49,836
Loan commitments	20,778	20	20,758	20,784	14	20,770
Loan guarantees	3,274	80	3,194	2,616	135	2,481
Total	\$ 78,661	\$ 920	\$ 77,741	\$ 74,599	\$ 1,512	\$ 73,087

⁽¹⁾ Current year amounts have been prepared in accordance with IFRS 9. Prior year amounts have not been restated and are prepared in accordance with IAS 39.

⁽²⁾ Includes allowance on other receivables of \$3 million (December 2017 – \$4 million).

In 2018, we developed a new loss given default model for our aerospace portfolio. This model is based on a residual value estimator approach and incorporates forward-looking macroeconomic factors. The new loss given default rates replace the previous assumption which used the fair value of collateral adjusted for estimated repossession costs. The impact of this model update resulted in a \$13 million decrease to our allowance for losses.

The following tables reconcile the opening and closing allowance for credit losses for the year ended December 31, 2018. Reconciling items include the allowance impact due to the following:

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

Changes to the allowance for losses on loans receivable, loans commitments and loan guarantees for the year ended December 31, 2018 were as follows:

<i>(in millions of Canadian dollars)</i>	Stage 1	Stage 2	Stage 3	2018 Total
Allowance for losses on loans receivable				
Balance beginning of year	113	388	523	1,024
Provision for (reversal of) credit losses				
Transfer to stage 1	116	(112)	(4)	–
Transfer to stage 2	(47)	50	(3)	–
Transfer to stage 3	–	(6)	6	–
Remeasurements	(107)	11	32	(64)
New originations	71	29	19	119
Net repayments and maturities	(43)	(29)	(1)	(73)
Total provision for (reversal of) credit losses	(10)	(57)	49	(18)
Write-offs	–	(4)	(119)	(123)
Modification resulting in derecognition	–	–	(137)	(137)
Foreign exchange translation	7	26	41	74
Balance end of year	110	353	357	820
Stage 3 allowance consists of:				
Impairment gain on originated credit-impaired loan			(51)	
Individual allowance			408	
Total stage 3 allowance			357	
Allowance for losses on loan commitments				
Balance beginning of year	4	5	–	9
Provision for (reversal of) credit losses				
Transfer to stage 1	13	(13)	–	–
Transfer to stage 2	(3)	3	–	–
Transfer to stage 3	–	–	–	–
Remeasurements	(15)	17	1	3
New originations	9	–	–	9
Net repayments and maturities	–	(1)	(1)	(2)
Total provision for credit losses	4	6	–	10
Foreign exchange translation	–	1	–	1
Balance end of year	8	12	–	20
Allowance for losses on loan guarantees				
Balance beginning of year	16	9	54	79
Provision for (reversal of) credit losses				
Transfer to stage 1	11	(11)	–	–
Transfer to stage 2	(9)	9	–	–
Transfer to stage 3	–	(1)	1	–
Remeasurements	(40)	30	30	20
New originations	39	1	–	40
Net repayments and maturities	(7)	(15)	(41)	(63)
Total provision for (reversal of) credit losses	(6)	13	(10)	(3)
Foreign exchange translation	1	2	1	4
Balance end of year	11	24	45	80
Total allowance for losses on loans receivable, loan commitments and loan guarantees	\$ 129	\$ 389	\$ 402	\$ 920

The following table reflects the movement in the allowance for losses on loans receivable, loan commitments and loan guarantees during the prior period:

(in millions of Canadian dollars)					Dec. 31, 2017 ⁽¹⁾
	Balance beginning of year	Provision for (reversal of) credit losses	Write-offs	Foreign exchange translation	Balance end of year
Loans receivable ⁽²⁾	1,552	(90)	(18)	(81)	1,363
Loan commitments	78	(61)	–	(3)	14
Loan guarantees ⁽³⁾	105	32	–	(2)	135
Total	\$ 1,735	\$ (119)	\$ (18)	\$ (86)	\$ 1,512

⁽¹⁾ Prior period amounts have not been restated and are prepared in accordance with IAS 39. Refer to Note 2 for the reconciliation of the closing impairment allowance under IAS 39 to the opening allowance for credit losses under IFRS 9.

⁽²⁾ Includes allowance on other receivables of \$4 million.

⁽³⁾ Included in the liability for loan guarantees.

The following table shows the breakdown of our provision for credit losses:

(in millions of Canadian dollars)		Dec. 31, 2017 ⁽¹⁾
Updated probability of default and loss given default models		(123)
Update to allowance assumption		(46)
Changes in portfolio composition ⁽²⁾		(55)
Increased concentration threshold		(6)
Credit migration		111
Reversal of provision for credit losses		\$ (119)

⁽¹⁾ Prior period amounts have not been restated and are prepared in accordance with IAS 39.

⁽²⁾ Represents provision requirements (reversals) as a result of disbursements, new financing business facilitated and repayments. Also includes the impact of changes in collateral values for our secured loans as these impacts should be considered in conjunction with the impact of the repayments on these loans throughout the year.

5. Investments

(in millions of Canadian dollars)		Dec. 31, 2018		Dec. 31, 2017	
		Cost	Fair value	Cost	Fair value
Direct investments					
Equity interests		168	163	150	134
Loans and debt securities		8	5	6	5
		176	168	156	139
Fund investments		999	1,174	912	985
Total		\$ 1,175	\$ 1,342	\$ 1,068	\$ 1,124

6. Assets Held for Sale

Assets held for sale represent assets returned to us as a result of default under loan agreements.

(in millions of Canadian dollars)	Dec. 31, 2018	Dec. 31, 2017
Aircraft	11	12
Helicopters	2	22
Total	\$ 13	\$ 34

At the beginning of 2018, the portfolio consisted of seven helicopters and one aircraft. During the year, one helicopter was sold for \$5 million (2017 – no sales occurred). Another helicopter was transferred to a finance lease for \$6 million (2017 – no leases occurred). Additionally, two helicopters valued at \$7 million in total were reclassified from assets held for sale to equipment available for lease which is included in other assets.

On a quarterly basis and upon reclassification to a new portfolio, we assess whether there is any indication of impairment of our aircraft given current market conditions such as recent aircraft sales, leasing rates and other market conditions. At the time of reclassification of the two helicopters to equipment available for lease, no impairment loss was recorded. For the remaining aircraft in the held for sale portfolio, a \$5 million impairment loss was recorded in other (income) expenses in 2018 (2017 – \$11 million).

During 2018, no aircraft were returned to us as a result of loan foreclosures (2017 – one helicopter).

7. Recoverable Insurance Claims

During the year, changes to recoverable insurance claims were as follows:

<i>(in millions of Canadian dollars)</i>	2018	2017
Balance beginning of year	65	63
Claims paid	74	201
Claims recovered	(38)	(41)
Claims recovered from reinsurers	(18)	(3)
Change in recoverable portion of cumulative claims paid	(52)	(151)
Foreign exchange translation	4	(4)
Balance end of year	\$ 35	\$ 65

Of the \$74 million in claim payments made during 2018 (2017 – \$201 million), 67% were related to the credit insurance product group (2017 – 85%). The largest concentrations of claim payments and recoveries were in the following geographic areas:

<i>(in millions of Canadian dollars)</i>	Dec. 31, 2018		Dec. 31, 2017 ⁽¹⁾	
	Claims paid	Claims recovered⁽²⁾	Claims paid	Claims recovered ⁽²⁾
North America	23	27	144	8
South and Central America and the Caribbean	16	4	8	18
Asia and Pacific	13	6	13	2
Middle East and Africa	12	11	24	12
Europe and Commonwealth of Independent States	10	8	12	4
Total	\$ 74	\$ 56	\$ 201	\$ 44

⁽¹⁾ Prior period has been reclassified to reflect current period presentation.

⁽²⁾ Represents recoveries on claims paid in the current and prior years.

8. Other Assets

<i>(in millions of Canadian dollars)</i>	Dec. 31, 2018	Dec. 31, 2017
Restructuring payments receivable	32	36
Insurance premiums receivable	27	25
Guarantee fees receivable	23	16
Prepaid expenses	13	13
Equipment available for lease	7	–
Net investment in finance leases	5	–
Other	63	48
Total	\$ 170	\$ 138

Restructuring payments receivable relate to an agreement between EDC and an airline obligor as part of the terms of a loan restructuring that was finalized in 2007. The receivable relates to a payable as shown in Note 12.

9. Property, Plant and Equipment

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

(in millions of Canadian dollars)					2018				2017
	Computer hardware	Furniture and equipment	Leasehold improvements	Total	Computer hardware	Furniture and equipment	Leasehold improvements	Total	
Cost:									
Balance beginning of year	39	22	56	117	36	20	55	111	
Additions	2	–	3	5	6	2	1	9	
Disposals	(6)	–	–	(6)	(3)	–	–	(3)	
Balance end of year	35	22	59	116	39	22	56	117	
Accumulated depreciation:									
Balance beginning of year	(29)	(18)	(16)	(63)	(25)	(17)	(14)	(56)	
Depreciation expense	(6)	(1)	(2)	(9)	(7)	(1)	(2)	(10)	
Disposals	6	–	–	6	3	–	–	3	
Balance end of year	(29)	(19)	(18)	(66)	(29)	(18)	(16)	(63)	
Carrying amount	\$ 6	\$ 3	\$ 41	\$ 50	\$ 10	\$ 4	\$ 40	\$ 54	

Future contractual commitments related to property, plant and equipment at the end of 2018 were \$1 million (2017 – \$2 million).

10. Intangible Assets

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

(in millions of Canadian dollars)				2018			2017	
	Internally developed software	Acquired computer software	Total	Internally developed software	Acquired computer software	Total		
Cost:								
Balance beginning of year	163	108	271	152	89	241		
Additions	9	19	28	11	20	31		
Disposals	–	(8)	(8)	–	(1)	(1)		
Balance end of year	172	119	291	163	108	271		
Accumulated amortization:								
Balance beginning of year	(96)	(69)	(165)	(90)	(59)	(149)		
Amortization expense	(10)	(14)	(24)	(6)	(11)	(17)		
Disposals	–	8	8	–	1	1		
Balance end of year	(106)	(75)	(181)	(96)	(69)	(165)		
Carrying amount	\$ 66	\$ 44	\$ 110	\$ 67	\$ 39	\$ 106		

Future contractual commitments related to intangible assets at the end of 2018 were \$39 million (2017 – \$22 million).

11. Building under Finance Lease

Our head office building is held under a finance lease for 20 years with the option of two further terms of 5 years each. Future minimum lease payments under the obligation under finance lease as well as the present value of the minimum lease payments based on the expected 25 year lease term are as follows:

<i>(in millions of Canadian dollars)</i>	Dec. 31, 2018		Dec. 31, 2017	
	Minimum payments	Present value of minimum lease payments	Minimum payments	Present value of minimum lease payments
2018	–	–	11	11
2019	11	11	11	10
2020	11	10	11	10
2021	11	10	11	9
2022	11	9	11	9
2023	11	9	11	9
2024 and beyond	167	101	167	96
Total	222	150	233	154
Less: future finance charges	(72)	–	(79)	–
Present value of minimum lease payments	\$ 150	\$ 150	\$ 154	\$ 154

During the year, changes to the building under finance lease were as follows:

<i>(in millions of Canadian dollars)</i>	2018	2017
Cost	177	177
Accumulated depreciation:		
Balance beginning of year	(43)	(36)
Depreciation expense	(7)	(7)
Balance end of year	(50)	(43)
Carrying amount	\$ 127	\$ 134

12. Accounts Payable and Other Credits

<i>(in millions of Canadian dollars)</i>	Dec. 31, 2018	Dec. 31, 2017
Canada Account payable	88	9
Employee benefit accruals	51	46
Trade payables and accruals	40	26
Restructuring payments payable	29	34
Reinsurance premiums payable	10	7
Other payables and other credits	8	1
Total	\$ 226	\$ 123

Canada Account payable primarily represents the amount of cash repayments (principal and interest) received by EDC from borrowers on Canada Account loans which were not yet remitted at year-end to the Consolidated Revenue Fund.

Restructuring payments payable relates to an agreement between EDC and an airline obligor as part of the terms of a loan restructuring that was finalized in 2007. The payable relates to a receivable as shown in Note 8.

13. Debt Instruments

We issue debt instruments in global capital markets. Short-term payables consist of commercial paper and other short-term debt related instruments that we issue with maturities under one year. Long-term payables represent bonds and other long-term instruments which we issue in U.S. dollars and other currencies with maturities exceeding one year. We use derivative instruments to manage interest rate risk and foreign exchange risk, and also for asset liability management purposes. Refer to Note 14 for further details on our derivative instruments.

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

LOANS PAYABLE

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

(in millions of Canadian dollars)	Dec. 31, 2018			Dec. 31, 2017		
	Designated at fair value through profit or loss	At amortized cost	Total	Designated at fair value through profit or loss	At amortized cost	Total
Short-term payables	11,085	–	11,085	6,424	–	6,424
Long-term payables						
due within current year*	9,646	5,136	14,782	11,099	639	11,738
over one year	25,781	3,800	29,581	20,963	7,989	28,952
Total long-term payables	35,427	8,936	44,363	32,062	8,628	40,690
Total	\$ 46,512	\$ 8,936	\$ 55,448	\$ 38,486	\$ 8,628	\$ 47,114

* Includes accrued interest of \$17 million (2017 – \$10 million).

The amount to be paid at maturity on the debt designated at fair value through profit or loss was \$46,360 million (2017 – \$38,387 million), \$152 million less than the December 2018 fair value (2017 – \$99 million).

In 2018, there were unrealized foreign exchange translation losses of \$692 million (2017 – gains of \$417 million) on our loans payable designated at amortized cost. The foreign exchange exposure of these loans payable is managed as part of our foreign currency risk management together with all other assets and liabilities. Refer to Note 31 for our consolidated foreign exchange translation (gain) loss.

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

(in millions of Canadian dollars)	2018			2017		
	Short-term loans payable	Long-term loans payable	Total	Short-term loans payable	Long-term loans payable	Total
Balance beginning of year	6,424	40,690	47,114	9,238	39,863	49,101
Net cash flows	3,864	1,070	4,934	(2,285)	2,763	478
Non-cash changes						
Foreign exchange translation	750	2,592	3,342	(529)	(1,857)	(2,386)
Fair value changes	(3)	1	(2)	–	(80)	(80)
Change in accrued interest	50	10	60	–	1	1
Balance end of year	\$ 11,085	\$ 44,363	\$ 55,448	\$ 6,424	\$ 40,690	\$ 47,114

STRUCTURED NOTES

We have entered into a number of structured notes as part of our funding program. Structured notes are hybrid securities that combine debt instruments with derivative components.

Structured notes outstanding, included in loans payable, were as follows:

(in millions of Canadian dollars)	Dec. 31, 2018	Dec. 31, 2017
Callable/extendible	486	722
Zero coupon	–	92
Total	\$ 486	\$ 814

We have executed swap contracts to mitigate interest rate risk and foreign exchange risk on these structured borrowings. These contracts ensure that we will receive proceeds from the swap to meet the requirements of settling and servicing the debt obligation. In swapping out of the underlying bond issue, the potential interest rate risk has been converted to credit risk. Credit exposure on derivative instruments is further discussed in Note 14.

14. Derivative Instruments

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

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

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

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

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

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

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

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

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

Under ISDA master netting agreements, the amounts owing by each counterparty on a single day may be netted into a single payment by currency. We do not use these agreements for daily netting, and accordingly, the ISDA agreements do not meet the criteria for offsetting in the consolidated statement of financial position. We retain the use of these agreements to allow the right to offset all outstanding derivative instruments upon specific credit events such as the default of one of the parties to the

agreement. Upon such events, all transactions under the agreement are terminated, a net termination value is assessed which determines the final amount payable to settle all outstanding transactions.

Collateral agreements provide for the posting of collateral by the counterparty when our exposure to that entity exceeds a certain threshold. At the end of 2018, there was no collateral held by a third party custodian (2017 – \$24 million, consisting of AAA rated government issued securities).

All derivative counterparties must have a minimum credit rating of A- and any exception must be approved by the Board of Directors. In 2018, we did not hold any derivatives with counterparties that had a rating below this requirement (2017 – none).

In 2018, we reviewed our contracts for embedded derivatives in non-financial contracts and determined that there were no embedded derivatives.

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

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

(in millions of Canadian dollars)	Dec. 31, 2018				Dec. 31, 2017			
	Remaining term to maturity				Remaining term to maturity			
	Under 1 year	1 to 3 years	Over 3 years	Total	Under 1 year	1 to 3 years	Over 3 years	Total
Interest rate swaps	8,802	16,313	15,939	41,054	8,090	14,688	11,301	34,079
Cross currency interest rate swaps	3,098	4,078	6,266	13,442	4,085	4,846	3,815	12,746
Foreign exchange swaps	5,901	–	–	5,901	4,156	–	–	4,156
Foreign exchange forwards	75	–	–	75	37	–	–	37
Total	\$ 17,876	\$ 20,391	\$ 22,205	\$ 60,472	\$ 16,368	\$ 19,534	\$ 15,116	\$ 51,018

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

(in millions of Canadian dollars)	Dec. 31, 2018			Dec. 31, 2017		
	Positive	Negative	Total	Positive	Negative	Total
Cross currency interest rate swaps	25	1,519	(1,494)	167	1,329	(1,162)
Interest rate swaps	184	378	(194)	95	267	(172)
Foreign exchange swaps	47	73	(26)	53	91	(38)
Foreign exchange forwards	–	1	(1)	–	3	(3)
Total derivative instruments	256	1,971	(1,715)	315	1,690	(1,375)
Impact of netting agreements	(244)	(244)	–	(263)	(263)	–
Total*	\$ 12	\$ 1,727	\$ (1,715)	\$ 52	\$ 1,427	\$ (1,375)
Applicable collateral			–			(24)
Net amount			\$ (1,715)			\$ (1,399)

* Includes net derivative instruments liabilities arising from financing activities of \$945 million (2017 – \$863 million).

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

(in millions of Canadian dollars)	Dec. 31, 2018	Dec. 31, 2017
Balance beginning of year	(863)	(1,429)
Net cash flows	564	257
Non-cash changes		
Foreign exchange translation and other	(515)	402
Fair value changes	(73)	(54)
Change in accrued interest	(58)	(39)
Balance end of year	\$ (945)	\$ (863)

15. Debt Instrument Maturities

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

(in millions of Canadian dollars)					Dec. 31, 2018				Dec. 31, 2017			
Year of maturity	Debt issues	Swap contracts	Net	Yield* (%)	Debt issues	Swap contracts	Net	Yield* (%)	Debt issues	Swap contracts	Net	Yield* (%)
Fixed rate issues												
2018	–	–	–	–	8,703	(7,194)	1,509	1.48				
2019	9,284	(4,233)	5,051	1.56	8,582	(3,930)	4,652	1.56				
2020	8,903	(7,518)	1,385	1.76	6,721	(5,439)	1,282	1.75				
2021	5,622	(3,304)	2,318	1.09	5,059	(2,891)	2,168	1.06				
2022	3,441	(3,168)	273	2.91	2,611	(2,611)	–	–				
2023	4,786	(4,103)	683	2.57	302	(302)	–	–				
2024 to 2028	35	(35)	–	–	–	–	–	–				
2029 and beyond	–	–	–	–	63	(63)	–	–				
Subtotal	32,071	(22,361)	9,710	1.66	32,041	(22,430)	9,611	1.39				
Floating rate issues												
2018	–	–	–		9,410	7,680	17,090					
2019	16,448	4,588	21,036		2,640	4,115	6,755					
2020	2,840	7,661	10,501		1,383	5,551	6,934					
2021	913	3,349	4,262		–	2,895	2,895					
2022	1,584	3,230	4,814		1,531	2,612	4,143					
2023	1,423	4,225	5,648		–	302	302					
2024 to 2028	–	35	35		–	–	–					
2029 and beyond	–	–	–		–	63	63					
Subtotal	23,208	23,088	46,296	2.33	14,964	23,218	38,182	1.39				
Total	\$ 55,279	\$ 727	\$ 56,006		\$ 47,005	\$ 788	\$ 47,793					

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

At the end of 2018, the contractual cash flows, including principal and estimated interest (using current contractual rates), related to our debt portfolio were as follows:

(in millions of Canadian dollars)						Dec. 31, 2018				
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total					
Debt	26,637	19,027	11,502	36	57,202					
Swap contracts										
Receivable	(4,649)	(11,332)	(7,474)	(36)	(23,491)					
Payable	5,134	11,695	7,703	36	24,568					
Total	\$ 27,122	\$ 19,390	\$ 11,731	\$ 36	\$ 58,279					

Credit exposure and other details of derivative instruments are included as part of Note 14.

16. Premium and Claims Liabilities

The premium and claims liabilities broken down by product group were as follows:

(in millions of Canadian dollars)	Dec. 31, 2018			Dec. 31, 2017		
	Insurance	Reinsurance	Net liabilities	Insurance	Reinsurance	Net liabilities
Credit insurance*	210	(10)	200	274	(13)	261
Contract insurance and bonding	70	(10)	60	45	(1)	44
Political risk insurance	610	(130)	480	289	(89)	200
Total	\$ 890	\$ (150)	\$ 740	\$ 608	\$ (103)	\$ 505

* Includes financial institutions insurance.

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

(in millions of Canadian dollars)	Dec. 31, 2018	Dec. 31, 2017
Deferred insurance premiums	160	146
Allowance for claims on insurance	730	462
Total premium and claims liabilities	890	608
Reinsurers' share of allowance for claims on insurance	(110)	(71)
Prepaid reinsurance	(40)	(32)
Reinsurers' share of premium and claims liabilities	(150)	(103)
Net premium and claims liabilities	\$ 740	\$ 505

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

(in millions of Canadian dollars)	Dec. 31, 2018			Dec. 31, 2017		
	Insurance	Reinsurance	Net liabilities	Insurance	Reinsurance	Net liabilities
Balance beginning of year	608	(103)	505	656	(116)	540
Change in portfolio make-up and risk ratings	312	(37)	275	14	(22)	(8)
Update of actuarial assumptions	10	–	10	(3)	21	18
Update to expense assumption methodology	(70)	–	(70)	(36)	5	(31)
Foreign exchange translation	30	(10)	20	(23)	9	(14)
Balance end of year	\$ 890	\$ (150)	\$ 740	\$ 608	\$ (103)	\$ 505

In 2018, we updated the methodology for the expense assumption used in the actuarial calculation of our allowance for claims on insurance policies. The difference between using the updated methodology and the prior methodology as at December 31, 2018 is a \$70 million release of allowance and represents a change in accounting estimate. This change in estimate also impacted claims-related expenses reported in Note 30. The impact on future periods has not been determined as it is impracticable to estimate.

Subsequent to the end of the year, we paid \$300 million for a claim in our political risk insurance product group related to risks in North Africa, which is included in premium and claims liabilities as at December 31, 2018.

17. Financing Commitments

We have three types of financing commitments.

The first type is undisbursed amounts on signed loan agreements totalling \$20,778 million (2017 – \$20,784 million). These commitments are immediately available to the obligor for drawdown subject to continued adherence to contractual covenants established under the financing agreements.

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

(in millions of Canadian dollars)	Dec. 31, 2018					Dec. 31, 2017				
	Fixed \$	Estimated spot yield %	Floating \$	Spread %	Total \$	Fixed \$	Estimated spot yield %	Floating \$	Spread %	Total \$
Commercial	298	3.96	20,364	1.44	20,662	1,013	3.00	19,635	1.37	20,648
Sovereign	112	2.86	4	3.36	116	120	2.86	16	2.03	136
Total	\$ 410	3.66	\$ 20,368	1.44	\$ 20,778	\$ 1,133	2.99	\$ 19,651	1.37	\$ 20,784

We also have loan and loan guarantee commitments for which terms related to the transaction, such as interest rate type and disbursement schedule, have not yet been determined. This category of commitments includes letters of offer accepted and outstanding for loans of \$3,660 million (2017 – \$3,756 million) and loan guarantees of \$310 million (2017 – \$18 million) as well as unallocated confirmed lines of credit of \$121 million (2017 – \$112 million).

The third type of financing commitment relates to undisbursed investment commitments of \$736 million for fund investments (2017 – \$784 million) and nil for direct investments (2017 – \$1 million). The majority of these commitments are drawn down over a five-year period, although drawdowns may occur over the life of the fund at the discretion of the fund managers.

18. Contingent Liabilities

INSURANCE IN FORCE AND LOAN GUARANTEES

As described in Note 1, we are subject to a limit imposed by the Act on our contingent liabilities related to the total principal amount owing under all insurance policies, reinsurance policies, indemnities and guarantees of the greater of (i) \$45 billion and (ii) an amount equal to 10 times EDC's authorized capital. The following table presents the net amount of these contingent liabilities:

(in millions of Canadian dollars)	Dec. 31, 2018	Dec. 31, 2017
Insurance in force:		
Credit insurance	11,282	9,294
Financial institutions insurance	1,996	3,392
Contract insurance and bonding	10,016	8,297
Political risk insurance	886	915
Reinsurance ceded*	(250)	(250)
Total insurance in force	23,930	21,648
Loan guarantees	3,274	2,616
Total	\$ 27,204	\$ 24,264

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

Insurance in Force

Exposure on our insurance in force at the end of 2018 totalled \$23,930 million (2017 – \$21,648 million). Net premium and claims liabilities related to this exposure on the consolidated statement of financial position was \$740 million (2017 – \$505 million); refer to Note 16 for further details. For details regarding insurance products and risks refer to Note 19.

Loan Guarantees

We issue loan guarantees to cover non-payment of principal, interest and fees owing to financial institutions providing loans to Canadian exporters or buyers of Canadian goods and services. Calls on guarantees result in our recognition of a loan asset within our financial statements and become a direct obligation of the exporter or buyer. At the end of 2018, loan guarantees with performing obligors were \$3,214 million of which \$54 million were secured (2017 – \$2,544 million in performing guarantees of which \$35 million were secured). Loan guarantees with impaired obligors were \$60 million for 2018 of which none were secured (2017 – \$72 million of which none were secured).

Loan guarantees on the consolidated statement of financial position were comprised as follows:

(in millions of Canadian dollars)	Dec. 31, 2018	Dec. 31, 2017
Deferred guarantee fee revenue	78	57
Allowance for losses on loan guarantees*	80	135
Total	\$ 158	\$ 192

* Current year amounts have been prepared in accordance with IFRS 9. Prior period amounts have not been restated and are prepared in accordance with IAS 39.

MATURITY ANALYSIS

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

(in millions of Canadian dollars)	Dec. 31, 2018						
	Credit insurance	Financial institutions insurance	Contract insurance and bonding	Political risk insurance	Loan guarantees	Reinsurance ceded*	Total
2019	6,926	1,908	3,800	31	3,095	(250)	15,510
2020	3,056	87	2,948	277	27	–	6,395
2021	945	1	404	144	33	–	1,527
2022	348	–	191	32	53	–	624
2023	7	–	93	15	9	–	124
2024 – 2028	–	–	2,580	344	57	–	2,981
2029 and beyond	–	–	–	43	–	–	43
Total	\$ 11,282	\$ 1,996	\$ 10,016	\$ 886	\$ 3,274	\$ (250)	\$ 27,204

(in millions of Canadian dollars)	Dec. 31, 2017						
	Credit insurance	Financial institutions insurance	Contract insurance and bonding	Political risk insurance	Loan guarantees	Reinsurance ceded*	Total
2018	8,813	3,271	2,621	84	2,494	(250)	17,033
2019	129	121	2,101	199	–	–	2,550
2020	288	–	961	117	23	–	1,389
2021	59	–	177	29	79	–	344
2022	5	–	98	139	6	–	248
2023	–	–	–	16	8	–	24
2024 – 2028	–	–	2,339	307	6	–	2,652
2029 and beyond	–	–	–	24	–	–	24
Total	\$ 9,294	\$ 3,392	\$ 8,297	\$ 915	\$ 2,616	\$ (250)	\$ 24,264

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

LEGAL PROCEEDINGS

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

19. Insurance Risks

INSURANCE AND FINANCIAL RISK

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

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

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

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

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

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

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

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

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

CONCENTRATIONS OF INSURANCE RISK

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

Credit Insurance

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

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

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

Internal risk level	Dec. 31, 2018			Dec. 31, 2017
	Standard & Poor's	Moody's	Percentage of outstanding buyer limits	Percentage of outstanding buyer limits
Low	AAA to A-	Aaa to A3	37%	35%
Moderate	BBB+ to BBB-	Baa1 to Baa3	30%	29%
Medium	BB+ to BB	Ba1 to Ba2	15%	15%
High	BB- to B-	Ba3 to B3	16%	17%
Priority watch	CCC+ to D	Caa1 to C	2%	4%

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

(in millions of Canadian dollars)	Dec. 31, 2018			Dec. 31, 2017			
	Credit insurance	Reinsurance ceded	Net credit insurance		Credit insurance	Reinsurance ceded	Net credit insurance
United States	5,725	(5)	5,720	United States	4,785	(4)	4,781
China	592	–	592	Brazil	540	–	540
Brazil	524	–	524	China	414	(1)	413
Mexico	373	–	373	United Kingdom	309	(26)	283
United Kingdom	394	(27)	367	Mexico	273	–	273
Other	3,716	(10)	3,706	Other	3,013	(9)	3,004
Total	\$ 11,324	\$ (42)	\$ 11,282	Total	\$ 9,334	\$ (40)	\$ 9,294

Financial Institutions Insurance

Financial institutions insurance supports Canadian exporters with credit risk and payment risk mitigation on terms of generally less than one year. Within our financial institutions insurance product group, our primary risk lies with the credit rating of the counterparty bank. At the end of 2018, our financial institutions insurance policies had outstanding \$515 million (2017 – \$1,421 million) of insurance exposure that was rated as investment grade and \$1,481 million (2017 – \$1,971 million) of insurance exposure rated as non-investment grade.

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

<i>(in millions of Canadian dollars)</i>	Dec. 31, 2018		Dec. 31, 2017
Turkey	536	Turkey	983
Canada	200	United States	346
Cuba	190	Peru	203
Peru	139	Canada	200
Cayman Islands	123	India	199
Other	808	Other	1,461
Total	\$ 1,996	Total	\$ 3,392

Contract Insurance and Bonding

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

The primary source of risk within the contract insurance and bonding product group is the credit rating of our policies' obligors. We assign an internal risk rating to each policy's obligor, based on a number of factors, including external credit rating and country of transaction.

The major concentrations of risk by internal risk rating based on the total insurance in force for the contract insurance and bonding product group were as follows:

<i>(in millions of Canadian dollars)</i>	Dec. 31, 2018	Dec. 31, 2017
Internal risk level	Outstanding risk exposure	Outstanding risk exposure
AA to BBB-	6,579	5,597
BB+ to B-	3,210	2,563
CCC+ and below	227	137
Total	\$ 10,016	\$ 8,297

The major concentrations of risk by country for the contract insurance and bonding product group, based on total insurance in force, were as follows:

(in millions of Canadian dollars)	Dec. 31, 2018			Dec. 31, 2017			
	Contract insurance and bonding	Reinsurance ceded	Net contract insurance and bonding		Contract insurance and bonding	Reinsurance ceded	Net contract insurance and bonding
Canada	10,950	(1,155)	9,795	Canada	9,131	(1,081)	8,050
Brazil	100	–	100	Brazil	96	–	96
United States	35	–	35	United States	37	–	37
Kuwait	8	–	8	United Arab Emirates	14	–	14
Oman	5	–	5	United Kingdom	13	–	13
Other	73	–	73	Other	87	–	87
Total	\$ 11,171	\$ (1,155)	\$ 10,016	Total	\$ 9,378	\$ (1,081)	\$ 8,297

Political Risk Insurance

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

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

(in millions of Canadian dollars)							
				Dec. 31, 2018		Dec. 31, 2017	
	Political risk insurance	Reinsurance ceded	Net political risk insurance		Political risk insurance	Reinsurance ceded	Net political risk insurance
China	1,037	(747)	290	China	982	(699)	283
Angola	208	(35)	173	Angola	229	(44)	185
Ghana	304	(159)	145	Mexico	568	(393)	175
Mexico	175	(64)	111	Ghana	300	(163)	137
Brazil	440	(330)	110	Brazil	406	(302)	104
Thailand	737	(635)	102	Puerto Rico	457	(361)	96
Jamaica	725	(639)	86	Thailand	679	(585)	94
Barbados	136	(60)	76	Jamaica	675	(592)	83
Dominican Republic	468	(404)	64	Colombia	434	(355)	79
Cameroon	172	(109)	63	Uruguay	427	(354)	73
Other	1,590	(815)	775	Other	4,202	(3,063)	1,139
	5,992	(3,997)	1,995		9,359	(6,911)	2,448
Country limits in excess of policy limits	(3,887)	2,778	(1,109)	Country limits in excess of policy limits	(7,338)	5,805	(1,533)
Total	\$ 2,105	\$ (1,219)	\$ 886	Total	\$ 2,021	\$ (1,106)	\$ 915

Risks and Sensitivities

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

- (1) economic cycles;
- (2) higher than anticipated claim loss development;
- (3) concentration of credit losses; and
- (4) geo-political considerations.

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

The following table illustrates the impact on net income of variations in key risk components. These risk components are analyzed and estimated using EDC's own loss experience. A qualitative component is added to these quantitative risk components as warranted by the external factors previously mentioned. A 10% change was applied to key risk components and the impact on premium and claims liabilities was quantified.

Key Risks

(in millions of Canadian dollars)		Dec. 31, 2018		
	Changes in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on net income
Frequency of claims	+10%	33	22	(22)
Frequency of claims	-10%	(34)	(23)	23
Severity of claims	+10%	42	27	(27)
Severity of claims	-10%	(42)	(27)	27
Foreign exchange rates	+10%	50	33	(33)
Foreign exchange rates	-10%	(50)	(33)	33
Claims development	+10%	7	7	(7)
Claims development	-10%	(7)	(7)	7

(in millions of Canadian dollars)		Dec. 31, 2017		
	Changes in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on net income
Frequency of claims	+10%	29	20	(20)
Frequency of claims	-10%	(30)	(20)	20
Severity of claims	+10%	34	23	(23)
Severity of claims	-10%	(35)	(23)	23
Foreign exchange rates	+10%	45	30	(30)
Foreign exchange rates	-10%	(41)	(28)	28
Claims development	+10%	9	9	(9)
Claims development	-10%	(9)	(9)	9

Claims Development

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

(in millions of Canadian dollars)		2014	2015	2016	2017	2018	Total
Underwriting Year							
Estimate of ultimate claims:							
At end of underwriting year		37	51	60	150	57	
One year later		74	59	60	159		
Two years later		63	56	51			
Three years later		57	56				
Four years later		56					
Estimate of ultimate claims at Dec. 31, 2018		56	56	51	159	57	379
Cumulative incurred losses at Dec. 31, 2018		(56)	(55)	(48)	(145)	(10)	(314)
Effect of margin and discounting		1	–	1	2	7	11
2014-2018 Claim Liabilities (IBNR) at Dec. 31, 2018		1	1	4	16	54	76
2004-2013 Claim Liabilities (IBNR) at Dec. 31, 2018							2
2004-2018 Claim Liabilities (IBNR) at Dec. 31, 2018							\$ 78

20. Equity

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 (2017 – 13.3 million). These shares entitle our shareholder to receive a dividend from time to time. No shares were issued in 2018 (2017 – nil). In 2018, a dividend of \$969 million was paid to the Government of Canada (2017 – \$786 million). The dividend per share in 2018 was \$72.86 (2017 – \$59.10).

21. 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.

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

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

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

22. Fair Value of Financial Instruments

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

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

(in millions of Canadian dollars)	Dec. 31, 2018		Dec. 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Performing fixed rate loans*	14,317	13,594	12,303	12,461
Performing floating rate loans*	38,998	38,454	37,094	38,046
Total performing loans receivable*	53,315	52,048	49,397	50,507
Impaired loans	435	435	370	370
Loans receivable and accrued interest and fees	53,750	52,483	49,767	50,877
Marketable securities	13,119	13,119	8,057	8,057
Derivative instruments	256	256	315	315
Investments	1,342	1,342	1,124	1,124
Recoverable insurance claims	35	35	65	65
Other assets	170	169	138	136
Liabilities				
Accounts payable and other credits	226	227	123	125
Loans payable	55,448	55,355	47,114	47,021
Derivative instruments	1,971	1,971	1,690	1,690
Loan guarantees	158	106	192	154

* Performing loans receivable includes accrued interest and fees receivable net of allowance for losses on loans, deferred loan revenue and other credits.

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

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

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

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

LOANS RECEIVABLE

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

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

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

MARKETABLE SECURITIES

We estimate the fair value of marketable securities using observable market prices. If such prices are not available, we determine the fair value by discounting future cash flows using an appropriate yield curve.

INVESTMENTS

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

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

(in millions of Canadian dollars)

Valuation technique	Unobservable input	Range (average)	Fair value at Dec. 31, 2018 ⁽¹⁾
Multiples	Multiple (Sales or EBITDA ⁽²⁾)	0.0 – 8.4 (4.6)	84
	Liquidity Discount	35% – 35% (35%)	8
	Discount Rate	0% – 35% (20%)	30
Discounted Cash Flows	Discount Rate	1% – 24% (19%)	2

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

⁽²⁾ Earnings before interest, taxes, depreciation and amortization.

RECOVERABLE INSURANCE CLAIMS

For the purpose of estimating their fair value, recoverable insurance claims are evaluated on a case-by-case basis. Specific knowledge of the counterparty, country and state of negotiations are taken into account for estimating the likely recoverable amount.

OTHER ASSETS AND ACCOUNTS PAYABLE AND OTHER CREDITS

The fair value of short-term other assets and accounts payable and other credits are assumed to equal their carrying value due to their short-term nature. For long-term other assets and accounts payable, we estimate fair value by discounting future cash flows using an appropriate yield curve.

LOANS PAYABLE

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

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

EDC hedges its structured notes using interest rate and cross currency swaps that convert EDC's obligations into floating rate notes. The receive leg of the swap mirrors the payment structure of EDC's structured notes; thus, any slight inaccuracy in the derivation of expected future payments on EDC's structured notes or their valuation is negated by the opposite valuation and derivation of the expected future payments from the receive leg of the swap.

Loans payable valued using unobservable inputs derived from market data, such as interest rate volatility for maturities greater than 15 years, are categorized as Level 3 in the fair value hierarchy.

DERIVATIVE INSTRUMENTS

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

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

For more complex swaps which may include optionality, including cross currency interest rate swaps, interest rate swaps and non-deliverable forwards, the fair value is determined using models which are developed from recognized valuation techniques, validated and managed in the same manner as our more complex loans payable as described above. Credit default swaps are valued with the additional input of market based par credit default swap spreads or by using quoted prices from dealers where appropriate.

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

Derivative instruments valued using unobservable inputs derived by market data, such as interest rate volatility for maturities greater than 15 years, are categorized as Level 3 in the fair value hierarchy.

LOAN GUARANTEES

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

FAIR VALUE HIERARCHY

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

(in millions of Canadian dollars)	Dec. 31, 2018				Dec. 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Performing fixed rate loans	–	13,538	56	13,594	–	12,016	445	12,461
Performing floating rate loans	–	38,177	277	38,454	–	37,812	234	38,046
Total performing loans receivable	–	51,715	333	52,048	–	49,828	679	50,507
Impaired loans	–	435	–	435	–	370	–	370
Loans receivable and accrued interest and fees	–	52,150	333	52,483	–	50,198	679	50,877
Marketable securities	6,772	6,347	–	13,119	4,235	3,822	–	8,057
Derivative instruments	–	256	–	256	–	287	28	315
Investments	1	–	1,341	1,342	3	–	1,121	1,124
Recoverable insurance claims	–	–	35	35	–	–	65	65
Other assets	139	30	–	169	100	36	–	136
Liabilities								
Accounts payable and other credits	196	31	–	227	89	36	–	125
Loans payable	–	55,355	–	55,355	–	46,929	92	47,021
Derivative instruments	–	1,971	–	1,971	–	1,690	–	1,690
Loan guarantees	–	106	–	106	–	154	–	154

The following table summarizes the reconciliation of Level 3 fair values between 2018 and 2017 for recoverable insurance claims, investments, loans payable designated at fair value through profit or loss and derivative instruments:

(in millions of Canadian dollars)					Dec. 31, 2018
	Recoverable insurance claims	Investments	Loans payable designated at fair value through profit or loss	Derivative instruments	Total
Balance beginning of year	65	1,121	(92)	28	1,122
Decrease in recoverable insurance claims	(34)	–	–	–	(34)
Change in accrued interest	–	–	25	(24)	1
Unrealized gains (losses) included in other (income) expenses	–	108	5	(4)	109
Purchases of assets/issuances of liabilities	–	291	–	–	291
Matured assets/liabilities	–	–	65	–	65
Return of capital	–	(242)	–	–	(242)
Foreign exchange translation	4	63	(3)	–	64
Balance end of year	\$ 35	\$ 1,341	\$ –	\$ –	\$ 1,376
Total gains (losses) for the year included in comprehensive income for instruments held at end of the year	\$ (34)	\$ 199	\$ –	\$ –	\$ 165

(in millions of Canadian dollars)					Dec. 31, 2017
	Recoverable insurance claims	Investments	Loans payable designated at fair value through profit or loss	Derivative instruments	Total
Balance beginning of year	63	1,005	(96)	27	999
Increase in recoverable insurance claims	6	–	–	–	6
Change in accrued interest	–	–	(5)	5	–
Unrealized gains (losses) included in other (income) expenses	–	23	2	(1)	24
Purchases of assets/issuances of liabilities	–	290	–	–	290
Return of capital	–	(155)	–	–	(155)
Foreign exchange translation	(4)	(42)	7	(3)	(42)
Balance end of year	\$ 65	\$ 1,121	\$ (92)	\$ 28	\$ 1,122
Total gains (losses) for the year included in comprehensive income for instruments held at end of the year	\$ 6	\$ (35)	\$ (2)	\$ (2)	\$ (33)

Changes in valuation methods may result in transfers into or out of Levels 1, 2 and 3. No transfers occurred in 2018 (2017 – nil).

In 2018, a sensitivity analysis was performed using possible alternative assumptions to recalculate the fair value of our Level 3 financial instruments. The fair value of Level 3 financial instruments is in whole or in part based on unobservable inputs. In preparing financial statements, appropriate levels for these unobservable inputs parameters are chosen so that they are consistent with prevailing market evidence or management judgment.

In order to perform our sensitivity analysis for our Level 3 investments, we adjusted the unobservable inputs. The unobservable inputs used to value our Level 3 investments include one or more of the following: multiple of sales, liquidity discount, multiple of EBITDA and discount rate. When multiple unobservable inputs are shocked, no netting is considered, resulting in the highest favourable or unfavourable change. The results of our analysis on our Level 3 investments ranged from an unfavourable change of \$50 million to a favourable change of \$51 million.

23. Financial Instrument Risks

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

CREDIT RISK

Credit risk is the risk of loss incurred if a counterparty fails to meet its financial commitments. Credit risk may arise from lending and guarantee exposures, equity investment transactions, insurance claims, counterparty credit defaults, and concentration or portfolio composition. We are exposed to credit risk on financial instruments under both our loans program and our treasury activities. Our objectives, policies and processes for managing credit risk as well as the methods we use to measure this risk are disclosed in the notes related to our derivative instruments and debt instruments, as well as in the green text in management's discussion and analysis on pages 87 to 88 and 94 to 95 of this annual report.

CONCENTRATION OF CREDIT RISK

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

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

(in millions of Canadian dollars)	Gross loans receivable	Loan guarantees	Investments	Marketable securities and derivative instruments*	Risk transfer	Dec. 31, 2018 Exposure		Dec. 31, 2017 Exposure	
						\$	%	\$	%
Country									
United States	9,928	613	68	10,259	–	20,868	29	16,955	27
Canada	5,141	2,103	652	1,409	89	9,394	13	7,573	12
United Kingdom	3,161	6	–	169	1,573	4,909	7	5,492	9
India	4,397	–	181	–	(196)	4,382	6	3,587	6
Australia	3,232	19	–	775	–	4,026	5	3,009	5
Chile	3,621	–	–	–	(478)	3,143	4	2,251	3
Mexico	3,048	5	24	3	(614)	2,466	3	2,135	3
Saudi Arabia	2,010	2	–	–	–	2,012	3	2,019	3
Germany	1,919	–	–	55	–	1,974	3	1,530	2
Brazil	1,573	37	89	–	(47)	1,652	2	2,206	3
Other	16,579	489	328	875	(327)	17,944	25	16,711	27
Total	\$ 54,609	\$ 3,274	\$ 1,342	\$ 13,545	\$ –	\$ 72,770	100	\$ 63,468	100

* Includes cash.

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

(in millions of Canadian dollars)	Gross loans receivable	Loan guarantees	Investments	Marketable securities and derivative instruments*	Risk transfer	Dec. 31, 2018 Exposure		Dec. 31, 2017 Exposure	
						\$	%	\$	%
Industry									
Commercial:									
Aerospace	10,946	102	—	—	(228)	10,820	15	12,123	19
Financial institutions	3,209	4	—	2,957	2,334	8,504	12	7,728	12
Oil and gas	9,043	173	9	—	(810)	8,415	11	7,527	12
Information and communication technologies	6,780	463	398	—	(341)	7,300	10	6,280	10
Infrastructure and environment	6,370	433	373	—	—	7,176	10	5,216	8
Mining	6,955	295	8	—	(955)	6,303	9	6,601	10
Surface transportation	5,580	654	—	—	—	6,234	8	5,671	9
Other	4,686	1,086	554	—	—	6,326	9	4,117	7
Total commercial	53,569	3,210	1,342	2,957	—	61,078	84	55,263	87
Sovereign	1,040	64	—	10,588	—	11,692	16	8,205	13
Total	\$ 54,609	\$ 3,274	\$ 1,342	\$ 13,545	\$ —	\$ 72,770	100	\$ 63,468	100

* Includes cash.

MARKET RISK

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

INTEREST RATE RISK

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

The following table summarizes our interest rate risk based on the gap between the notional amount of assets and liabilities grouped by the earlier of contractual re-pricing or maturity dates. Notional amounts reflect our true exposure to re-pricing at various maturities. The differences between the notional amounts and the carrying values, the positions not subject to re-pricing risk and equity are presented in the non-interest rate sensitive column to ensure comparability with the consolidated statement of financial position. The effective interest rates shown indicate historical rates for fixed rate and floating rate instruments.

<i>(in millions of Canadian dollars)</i>	Immediately rate-sensitive	Up to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest rate sensitive⁽¹⁾	Dec. 31, 2018 Total
Assets							
Cash and marketable securities	170	5,463	1,176	4,970	1,519	(9)	13,289
Effective interest rate %	–	2.32%	2.31%	2.28%	2.52%		
Gross loans receivable	429	39,868	989	6,963	5,497	863	54,609
Effective interest rate %	7.82%	4.42%	3.96%	3.52%	3.59%		
Other assets and accrued interest	–	–	–	–	–	1,482	1,482
Total assets	\$ 599	\$ 45,331	\$ 2,165	\$ 11,933	\$ 7,016	\$ 2,336	\$ 69,380
Liabilities and equity							
Loans payable	–	27,126	5,367	22,752	35	168	55,448
Effective interest rate %	–	2.45%	1.47%	1.96%	1.52%		
Total pay side instruments on swap contracts	–	35,464	–	4,311	6,135	16,059	61,969
Effective interest rate %	–	2.23%	–	1.86%	2.37%		
Total receive side instruments on swap contracts	–	(24,701)	(1,954)	(18,503)	(35)	(15,279)	(60,472)
Effective interest rate %	–	1.45%	1.56%	2.06%	1.52%		
Cumulative foreign exchange translation on cross currency interest rate swaps ⁽²⁾	–	–	–	–	–	(1,497)	(1,497)
Total loans payable							55,448
Other liabilities and deferred revenue	–	–	–	–	–	3,587	3,587
Equity						10,345	10,345
Total liabilities and equity	\$ –	\$ 37,889	\$ 3,413	\$ 8,560	\$ 6,135	\$ 13,383	\$ 69,380
At December 31, 2018							
Total gap	599	7,442	(1,248)	3,373	881	(11,047)	–
Cumulative gap	599	8,041	6,793	10,166	11,047	–	–
Canadian dollar	217	2,576	81	443	345	(3,662)	–
Foreign currency	382	4,866	(1,329)	2,930	536	(7,385)	–
Total gap	\$ 599	\$ 7,442	\$ (1,248)	\$ 3,373	\$ 881	\$ (11,047)	\$ –

⁽¹⁾ Included in non-interest rate sensitive amounts are the differences between the carrying amounts and the notional amounts, foreign exchange contracts and foreign exchange forwards not sensitive to interest rates.

⁽²⁾ Due to foreign exchange translation, the pay and receive side instruments may not net to zero. This amount represents the difference caused by foreign exchange translation on the pay and receive side instruments on swap contracts.

<i>(in millions of Canadian dollars)</i>	Immediately rate-sensitive	Up to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest rate sensitive ⁽¹⁾	Dec. 31, 2017 Total
Assets							
Cash and marketable securities	157	3,383	493	3,287	917	(23)	8,214
Effective interest rate %	–	1.28%	1.56%	1.72%	2.16%		
Gross loans receivable	591	38,589	886	6,316	3,902	915	51,199
Effective interest rate %	7.28%	3.44%	3.95%	3.66%	3.76%		
Other assets and accrued interest	–	–	–	–	–	707	707
Total assets	\$ 748	\$ 41,972	\$ 1,379	\$ 9,603	\$ 4,819	\$ 1,599	\$ 60,120
Liabilities and equity							
Loans payable	–	18,906	4,761	22,974	364	109	47,114
Effective interest rate %	–	1.68%	1.43%	1.71%	2.55%		
Total pay side instruments on swap contracts	–	31,407	754	2,733	4,121	13,282	52,297
Effective interest rate %	–	1.35%	1.50%	1.81%	2.19%		
Total receive side instruments on swap contracts	–	(17,300)	(4,132)	(16,380)	(365)	(12,841)	(51,018)
Effective interest rate %	–	1.12%	1.51%	1.90%	2.55%		
Cumulative foreign exchange translation on cross currency interest rate swaps ⁽²⁾	–	–	–	–	–	(1,279)	(1,279)
Total loans payable							47,114
Other liabilities and deferred revenue	–	–	–	–	–	2,966	2,966
Equity						10,040	10,040
Total liabilities and equity	\$ –	\$ 33,013	\$ 1,383	\$ 9,327	\$ 4,120	\$ 12,277	\$ 60,120
At December 31, 2017							
Total gap	748	8,959	(4)	276	699	(10,678)	–
Cumulative gap	748	9,707	9,703	9,979	10,678	–	–
Canadian dollar	306	1,783	78	514	398	(3,079)	–
Foreign currency	442	7,176	(82)	(238)	301	(7,599)	–
Total gap	\$ 748	\$ 8,959	\$ (4)	\$ 276	\$ 699	\$ (10,678)	\$ –

⁽¹⁾ Included in non-interest rate sensitive amounts are the differences between the carrying amounts and the notional amounts, foreign exchange contracts and foreign exchange forwards not sensitive to interest rates.

⁽²⁾ Due to foreign exchange translation, the pay and receive side instruments may not net to zero. This amount represents the difference caused by foreign exchange translation on the pay and receive side instruments on swap contracts.

FOREIGN EXCHANGE RISK

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

Our objectives, policies and processes for managing market risk as well as a sensitivity analysis for our exposure to both interest rate and foreign exchange risk are disclosed in the text and tables highlighted in management's discussion and analysis on pages 96 to 97 of this annual report.

LIQUIDITY RISK

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

Our objectives, policies and processes for managing liquidity risk as well as the methods we use to measure this risk are disclosed in the text and tables highlighted in management's discussion and analysis on pages 97 to 98 of this annual report.

24. Contractual Obligations

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

We have two types of loan commitments. The first type is undisbursed amounts on signed loan agreements. The second type represents commitments we entered into, for which terms related to the transaction such as interest rate type and disbursement schedule have not yet been determined. This category includes letters of offer accepted and outstanding for loans as well as unallocated confirmed lines of credit (LOC).

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

The following table provides a summary of our future payments on contractual commitments:

<i>(in millions of Canadian dollars)</i>	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	2018 Total	2017 Total
Other long-term payable	9	17	7	–	33	38
Undisbursed loan commitments	20,778	–	–	–	20,778	20,784
Undisbursed investment commitments	736	–	–	–	736	785
Letters of offer accepted and outstanding	3,660	–	–	–	3,660	3,756
Unallocated confirmed LOC	121	–	–	–	121	112
Leases	29	61	62	204	356	385
Purchase obligations	132	65	35	1	233	101
Total	\$ 25,465	\$ 143	\$ 104	\$ 205	\$ 25,917	\$ 25,961

25. Structured Entities

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

CONSOLIDATED STRUCTURED ENTITIES

We have foreclosed on a number of aircraft and helicopter loans and as a result, various aircraft and helicopters for which we were a secured lender were returned to us. These assets have been placed into trusts which are considered to be SEs that we control.

The following table illustrates the total assets of SEs consolidated within our financial statements.

<i>(in millions of Canadian dollars)</i>	2018	2017
Assets held for sale ⁽¹⁾	13	34
Equipment available for lease ⁽²⁾	7	–
Net investment in aircraft under finance leases ⁽²⁾	5	–
Total	\$ 25	\$ 34

⁽¹⁾ Refer to Note 6.

⁽²⁾ Refer to Note 8.

UNCONSOLIDATED STRUCTURED ENTITIES

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

<i>(in millions of Canadian dollars)</i>	Dec. 31, 2018	Dec. 31, 2017
SEs included in the consolidated statement of financial position		
Loans receivable	14,702	14,369
Allowance for losses on loans	(319)	(440)
Net loans receivable	14,383	13,929
Fund investments	1,174	985
Maximum exposure in the consolidated statement of financial position	15,557	14,914
Commitments and guarantees*		
Commitments		
Signed loan agreements	2,021	1,783
Letters of offer	643	965
Fund investments	736	784
Guarantees provided to equity holders	303	308
Maximum exposure to commitments and guarantees	3,703	3,840
Maximum exposure to structured entities	\$ 19,260	\$ 18,754

* Included in commitments and guarantees in Note 17.

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

26. Loan Revenue

<i>(in millions of Canadian dollars)</i>	2018	2017
Loan interest – floating rate	1,524	1,259
Loan interest – fixed rate	473	453
Loan fee revenue	189	184
Impaired revenue	21	19
Total	\$ 2,207	\$ 1,915

27. Interest Expense

<i>(in millions of Canadian dollars)</i>	2018	2017
Loans payable and derivatives		
Short-term payables	272	133
Long-term payables and derivatives – floating	777	439
Long-term payables and derivatives – fixed*	166	141
Other	4	2
Total	\$ 1,219	\$ 715

* Includes interest expense for debt classified at amortized cost of \$134 million (2017 – \$106 million).

28. Financing Related Expenses

<i>(in millions of Canadian dollars)</i>	2018	2017
Risk mitigation expense	27	37
Other	6	8
Total	\$ 33	\$ 45

29. Net Insurance Premiums and Guarantee Fees

<i>(in millions of Canadian dollars)</i>	Dec. 31, 2018			Dec. 31, 2017		
	Direct premiums and guarantee fees	Reinsurance premiums ceded	Net premiums and guarantee fees	Direct premiums and guarantee fees	Reinsurance premiums ceded	Net premiums and guarantee fees
Credit insurance	114	(9)	105	112	(7)	105
Financial institutions insurance	14	(1)	13	18	–	18
Contract insurance and bonding	91	(15)	76	83	(16)	67
Political risk insurance	24	(14)	10	26	(16)	10
Total	\$ 243	\$ (39)	\$ 204	\$ 239	\$ (39)	\$ 200

30. Claims-Related Expenses

The composition of the claims-related expenses, expressed on the consolidated statement of comprehensive income, was as follows:

<i>(in millions of Canadian dollars)</i>	2018	2017
Claims paid	74	201
Claims recovered	(38)	(41)
Claims recovered from reinsurers	(18)	(3)
Increase in the net allowance for claims on insurance	197	3
(Increase) decrease in recoverable insurance claims	34	(6)
Claims handling expenses	6	3
Total	\$ 255	\$ 157

31. Other (Income) Expenses

<i>(in millions of Canadian dollars)</i>	2018	2017
Net realized and unrealized (gain) loss on investments	(149)	(33)
Net realized and unrealized (gain) loss on derivatives	10	59
Net realized and unrealized (gain) loss on marketable securities	9	26
Net realized and unrealized (gain) loss on loans payable	8	(78)
Loss on sale and impairment of aircraft	5	11
Loss on sale of loan assets	4	19
Foreign exchange translation loss	16	10
Other	(1)	20
Total	\$ (98)	\$ 34

32. Administrative Expenses

<i>(in millions of Canadian dollars)</i>	2018	2017
Salaries and benefits	233	213
Professional services	55	35
Pension, other retirement and post-employment benefits	48	51
Systems costs	38	25
Amortization and depreciation	33	27
Marketing and communications	26	20
Occupancy	26	27
Travel, hospitality and conferences	11	9
Other	27	24
Total	\$ 497	\$ 431

33. Retirement Benefit Plans

PENSION PLANS

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

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

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

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

OTHER BENEFIT PLANS

We maintain a closed retiring allowance program (service accumulation ceased July 1, 2013) and provide certain life insurance, health and dental care benefits to retired employees who qualify. These plans' durations are 19 years and are funded as the cost of benefits is incurred. Costs are accrued based on actuarial calculations.

PLANS' GOVERNANCE STRUCTURE

EDC's pension governance structure is comprised of the Board of Directors, Human Resources Committee of the Board (HRC) and two management groups. The first management group, the Management Pension Committee (MPC), is at the executive level, while the Pension Investment Advisory Committee (PIAC) is at an operational level.

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

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

RISK MITIGATION

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

FUNDING RISK

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

OTHER RISKS

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

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

(in millions of Canadian dollars)	Dec. 31, 2018				Dec. 31, 2017			
	Registered Pension Plan	Supplementary Retirement Plan	Other benefit plans	Total	Registered Pension Plan	Supplementary Retirement Plan	Other benefit plans	Total
Defined benefit obligations:	1,064	93	186	1,343	942	85	233	1,260
Obligation beginning of year	28	2	6	36	25	2	8	35
Current service costs	38	3	6	47	39	3	10	52
Interest cost on benefit obligation	11	1	–	12	10	1	–	11
Employee contributions								
Actuarial (gain) loss from changes in plan experience	3	2	(8)	(3)	(6)	(2)	(84)	(92)
Actuarial (gain) loss from changes in financial assumptions	(62)	(4)	(16)	(82)	75	6	21	102
Actuarial (gain) loss from changes in demographic assumptions	(2)	–	–	(2)	–	–	–	–
Benefits paid	(23)	(2)	(2)	(27)	(21)	(2)	(2)	(25)
Obligation end of year ⁽¹⁾	1,057	95	172	1,324	1,064	93	186	1,343
Fair value of plan assets:								
Fair value beginning of year	1,128	98	1	1,227	985	78	–	1,063
Interest income on plan assets	41	4	–	45	40	3	–	43
Return (loss) on plan assets, excluding interest income on plan assets	(38)	(5)	–	(43)	74	2	–	76
Employer contributions	29	1	2	32	41	16	2	59
Employee contributions	11	1	–	12	10	1	–	11
Benefits paid	(23)	(2)	(2)	(27)	(21)	(2)	(2)	(25)
Administrative costs	(1)	–	(1)	(2)	(1)	–	1	–
Fair value end of year ⁽¹⁾	1,147	97	–	1,244	1,128	98	1	1,227
Funded status – plan (deficit) surplus⁽²⁾	\$ 90	\$ 2	\$ (172)	\$ (80)	\$ 64	\$ 5	\$ (185)	\$ (116)

⁽¹⁾ The asset ceiling test had no impact on the asset or obligation position of the Plans.

⁽²⁾ On the Statement of Financial Position, the RPP and SRP are classified as retirement benefit assets totalling \$92 million and the Other benefit plans are classified as retirement benefit obligations totalling \$172 million.

ASSET MIX

The objective when managing capital of the Plans is to safeguard the ability to continue as a going concern in order to maintain adequate assets to support investment activities of the Plans and to ensure adequate assets to fund future benefit payments. The Plans' policies are to invest in a diversified portfolio of investments, based on criteria established in the SIPPs which assist in the management of capital and mitigation of risk. Periodically, an asset-liability modeling (ALM) study is performed to ensure that the pension plan's investment strategy policies are appropriate in terms of risk and return profiles to ensure proper matching to meet our long-term funding obligation. The results of the ALM are reviewed by the PIAC and recommendations, if any, are made to the MPC and the HRC as part of the annual SIPPs review. An ALM study was initiated in late 2016 and the PIAC recommendations were partially implemented during 2017 and 2018, and anticipated to be completed in 2019. At December 31, 2018, the asset mixes deviate from the allocation as set out in the SIPP as a result of this staggered implementation; the SIPP permits such deviations in transition periods, as authorized by the committees.

The following table outlines the target allocation and asset mix of the DB plans' assets:

			Registered Pension Plan		Supplementary Retirement Plan*
	2018 Target %	2018 %	2017 %	2018 %	2017 %
Cash	–	–	–	52	44
Debt securities	30	31	25	–	–
Equities	53	55	61	48	56
Alternatives	17	14	14	–	–
Total	100	100	100	100	100

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

FAIR VALUE MEASUREMENTS

All financial instruments of the Plans recognized at fair value in the Consolidated Statement of Financial Position must be classified into fair value hierarchy levels as shown in the table below, based on the extent to which the inputs used to measure the fair value are observable or unobservable as defined in Note 22 Fair Value of Financial Instruments.

(in millions of Canadian dollars)	Dec. 31, 2018				Dec. 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Fixed income	–	351	–	351	–	283	–	283
Equities								
Canadian	–	142	–	142	–	151	–	151
International	–	309	–	309	–	250	–	250
U.S.	–	47	–	47	–	155	–	155
Global equities	–	186	–	186	–	184	–	184
Alternatives	–	107	59	166	–	37	120	157
Derivatives	–	(9)	–	(9)	–	(2)	–	(2)
Other*	52	–	–	52	49	–	–	49
Total	\$ 52	\$ 1,133	\$ 59	\$ 1,244	\$ 49	\$ 1,058	\$ 120	\$ 1,227

* Represents cash and cash held with CRA.

The pension expenses recognized in the consolidated statement of comprehensive income, as split in their components, were as follows:

(in millions of Canadian dollars)				2018	2017			
	Registered Pension Plan	Supplementary Retirement Plan	Other benefit plans	Total	Registered Pension Plan	Supplementary Retirement Plan	Other benefit plans	Total
Defined benefit								
Current service costs	28	2	6	36	25	2	8	35
Administrative costs	1	–	–	1	1	–	–	1
Service costs	29	2	6	37	26	2	8	36
Interest cost on benefit obligation	38	3	6	47	39	3	10	52
Interest income on plan assets	(41)	(4)	–	(45)	(40)	(3)	–	(43)
Net interest on the defined benefit liability (asset)	(3)	(1)	6	2	(1)	–	10	9
Total defined benefit expense	26	1	12	39	25	2	18	45
Defined contribution expense	8	1	–	9	6	–	–	6
Total	\$ 34	\$ 2	\$ 12	\$ 48	\$ 31	\$ 2	\$ 18	\$ 51

KEY ASSUMPTIONS

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

Assumptions	Dec. 31, 2018			Dec. 31, 2017		
	Registered Pension Plan	Supplementary Retirement Plan	Other benefit plans	Registered Pension Plan	Supplementary Retirement Plan	Other benefit plans
<i>(Weighted average)</i>						
Defined benefit obligation:						
Discount rate	3.9%	3.9%	4.0%	3.6%	3.6%	3.5%
Inflation	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Rate of compensation increase*	3.9%	3.9%	4.1%	4.0%	4.0%	4.5%
Benefit costs:						
Discount rate on projected defined benefit obligation	3.6%	3.6%	3.5%	4.0%	4.0%	4.0%
Inflation	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Rate of compensation increase*	4.0%	4.0%	4.1%	4.8%	4.8%	5.5%
Assumed medical cost trend:						
Initial medical cost trend rate	–	–	4.9%	–	–	5.6%
Medical cost trend rate declines to	–	–	4.5%	–	–	4.5%
Year that the rate reaches the ultimate trend rate	–	–	2020	–	–	2020
Dental care trend	–	–	4.3%	–	–	4.3%

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

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

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

The rate of compensation increase used for the DB obligation represents a long-term assumption and includes components for merit and promotion adjustments.

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics in the form of post-retirement mortality tables.

REMEASUREMENTS RECOGNIZED IN OTHER COMPREHENSIVE INCOME (OCI)

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

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

(in millions of Canadian dollars) 2018					2017			
	Registered Pension Plan	Supplementary Retirement Plan	Other benefit plans	Total	Registered Pension Plan	Supplementary Retirement Plan	Other benefit plans	Total
Remeasurement on retirement benefit obligations								
Actuarial gain (loss) – plan experience assumptions	(3)	(2)	8	3	6	2	84	92
Actuarial gain (loss) – demographic assumptions	2	–	–	2	–	–	–	–
Actuarial gain (loss) – financial assumptions	62	4	16	82	(75)	(6)	(21)	(102)
	61	2	24	87	(69)	(4)	63	(10)
Remeasurement on plan assets excluding interest income								
Return (loss) on plan assets	(38)	(5)	–	(43)	74	2	–	76
Total	\$ 23	\$ (3)	\$ 24	\$ 44	\$ 5	\$ (2)	\$ 63	\$ 66

SENSITIVITY ANALYSIS

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

(in millions of Canadian dollars)		Dec. 31, 2018			
		Registered Pension Plan	Supplementary Retirement Plan	Other benefit plans	Total
Sensitivity of Assumptions		Obligation	Obligation	Obligation	Obligation
Discount rate					
Impact of:	1% increase (\$)	(174)	(15)	(28)	(217)
	1% decrease (\$)	229	20	38	287
Longevity risk sensitivity					
Impact of:	increase of 1 year in life expectancy	25	2	5	32
Rate of compensation increase					
Impact of:	1% increase (\$)	23	11	1	35
	1% decrease (\$)	(25)	(7)	(1)	(33)
Inflation rate assumption					
Impact of:	0.25% increase (\$)	44	4	n/a*	48
	0.25% decrease (\$)	(41)	(4)	n/a*	(45)

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

A one percentage point increase in assumed health care cost trends would have increased the service and interest cost by \$4 million and the obligation by \$36 million. Whereas a one percentage point decrease would have decreased the service and interest costs by \$3 million and the obligation by \$27 million.

TOTAL CONTRIBUTIONS

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

(in millions of Canadian dollars)				2018	2017			
	Registered Pension Plan	Supplementary Retirement Plan	Other benefit plans	Total	Registered Pension Plan	Supplementary Retirement Plan	Other benefit plans	Total
DB								
Regular contributions	12	1	2	15	15	1	2	18
Special contributions	17	–	–	17	26	15	–	41
Total defined benefit cash payments	29	1	2	32	41	16	2	59
DC								
Total defined contribution cash payments	8	1	–	9	6	–	–	6
Total cash payments	\$ 37	\$ 2	\$ 2	\$ 41	\$ 47	\$ 16	\$ 2	\$ 65

We expect to contribute \$43 million to the Plans in 2019 which includes \$31 million to the RPP DB component of the plan, \$7 million to the RPP DC component of the plan and \$5 million for the other benefit plans. Contributions to the SRP will be determined once the actuarial valuation is complete in mid-2019.

FUNDING AND SOLVENCY VALUATION

Our appointed actuaries measure the DB obligations for accounting purposes as at December 31 of each year. We fund our DB pension plans in accordance with actuarially determined amounts required to satisfy employee benefit obligations under current federal pension regulations. The most recent funding valuation for the RPP and the SRP was as at December 31, 2017. The next formal valuations will be conducted by the Plans' actuaries in 2019 and will be as at December 31, 2018.

The financial health of a pension plan is measured by actuarial valuations, which are prepared on both a going-concern and a solvency basis. The EDC DB RPP ratios as at December 31, 2017 were 151.6% (2016 – 144.1%) on a going-concern basis and 94.7% (2016 – 88.1%) on a solvency basis. Since EDC's solvency ratio for the RPP is less than 100%, we are required by federal pension legislation to make special monthly solvency contributions. During 2018, we contributed special payments of \$17 million into the RPP and will continue to remit all required solvency payments. The solvency ratio for the SRP as at December 31, 2017 was 99.4% (2016 – 83.1%).

34. Related Party Transactions

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

CANADA ACCOUNT ADMINISTRATIVE EXPENSE RECOVERY

As described in Note 35, we enter into certain financial and contingent liability transactions on behalf of the Government of Canada known as "Canada Account" transactions. We are compensated for expenses and overhead relating to Canada Account activities. In 2018, we retained \$6 million (2017 – \$3 million) from Canada Account receipts and recoveries for these expenses and overhead. These amounts are netted against administrative expenses on the consolidated statement of comprehensive income.

KEY MANAGEMENT PERSONNEL COMPENSATION

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

The remuneration of key management personnel is determined as follows:

- Chairperson and other independent Directors receive an annual retainer for Board and Committee meetings based on a fee schedule in accordance with Treasury Board Guidelines. Chairs of committees receive a base retainer plus an additional \$2,000.
- Executive Management team, except for the President and CEO, remuneration is approved by the Human Resources Committee of the Board of Directors, having regard to the performance of individuals and market trends. For total compensation, EDC targets the median of its comparator group, which includes organizations from the finance, insurance, investment and banking sectors as well as Crown corporations and other relevant industries.
- The President and CEO is compensated in accordance with the terms of the Order-in-Council based on recommendations made by the Board of Directors. Base salary for 2017–2018 was within the range of \$325,300 – \$382,700.

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

(in millions of Canadian dollars)	2018	2017
Salaries and other short-term benefits ⁽¹⁾	5	5
Post-employment benefits ⁽²⁾	1	1
Total	\$ 6	\$ 6

⁽¹⁾ Includes compensation paid to Chairperson and other independent Directors, Executive Management team salaries and non-monetary compensation.

⁽²⁾ Includes pensions and post-employment life insurance, as applicable.

35. Canada Account Transactions

Pursuant to the Act, the Minister, with the concurrence of the Minister of Finance, may authorize us to undertake certain financial and contingent liability transactions on behalf of the Government of Canada. These transactions and the legislative authorities that underlie them have come to be known collectively as “Canada Account”. Accounts for these transactions are maintained separately from our accounts and are consolidated annually as at March 31 with the financial statements of the Government of Canada, which are reported upon separately by the Government and audited by the Auditor General of Canada. The assets under the Canada Account, mainly loans receivable and accrued interest and fees, are recorded in accordance with the accounting policies and practices of the Government of Canada and amounted to \$6.8 billion at the end of December 2018 (2017 – \$3.7 billion).

The Act allows the Canada Account to have outstanding loans and commitments to borrowers and arrangements giving rise to contingent liabilities under contracts of insurance and other agreements up to a maximum of \$20 billion. The position against the statutory limit at the end of 2018, determined in accordance with the requirements of the Act, was \$7.9 billion (2017 – \$2.7 billion).

TEN-YEAR REVIEW

STATEMENT OF FINANCIAL POSITION

as at December 31

(in millions of Canadian dollars)	2018 ⁽¹⁾	2017	2016
Gross loans receivable	54,609	51,199	55,375
Accrued interest and fees receivable ⁽²⁾	272	241	236
Deferred loan revenue and other	(315)	(313)	(361)
Allowance for losses on loans	(820)	(1,363)	(1,552)
Net loans receivable	53,746	49,764	53,698
Assets held for sale ⁽³⁾	13	34	42
Investments	1,342	1,124	1,005
Cash and marketable securities	13,289	8,214	7,389
Reinsurers' share of premium and claims liabilities	150	103	116
Property, plant and equipment	50	54	55
Intangible assets	110	106	92
Other assets	680	721	727
Total Assets	\$ 69,380	\$ 60,120	\$ 63,124
Loans payable	55,448	47,114	49,101
Other liabilities	2,519	2,152	3,359
Allowance for losses on loan commitments ⁽⁴⁾	20	14	78
Premium and claims liabilities	890	608	656
Loan guarantees ⁽⁵⁾	158	192	167
Total Liabilities	59,035	50,080	53,361
Share capital	1,333	1,333	1,333
Retained earnings	9,012	8,707	8,430
Accumulated other comprehensive income (loss)	–	–	–
Equity	10,345	10,040	9,763
Total Liabilities and Equity	\$ 69,380	\$ 60,120	\$ 63,124

⁽¹⁾ 2018 through 2010 are based on IFRS; 2009 numbers are based on previous Canadian GAAP.

⁽²⁾ For 2018 through 2010, accrued loan interest and fees were reclassified to loans receivable for IFRS presentation purposes. For 2009, accrued loan interest and fees are included in other assets.

⁽³⁾ At the end of December 2018, there was one Q400 and three helicopters included in assets held for sale. For 2013 through 2009, assets held for sale is grouped with other assets.

⁽⁴⁾ For 2018 through 2010, allowance for losses on loan guarantees is included with loan guarantees. For 2009, allowance for losses on loan commitments includes allowance for losses on loan guarantees.

⁽⁵⁾ For 2018 through 2010, loan guarantees include deferred guarantee fee revenue and allowance for losses on loan guarantees. For 2009, allowance for losses on loan guarantees is grouped with allowance for losses on loan commitments and guarantees and deferred guarantee fee revenue is grouped with loans receivable.

2015	2014	2013	2012	2011	2010	2009
53,326	41,791	36,549	30,336	29,093	26,997	26,823
200	163	154	157	145	163	–
(390)	(368)	(346)	(362)	(558)	(549)	(556)
(1,715)	(1,163)	(1,246)	(1,182)	(1,680)	(1,561)	(1,948)
51,421	40,423	35,111	28,949	27,000	25,050	24,319
15	364	–	–	–	–	–
848	689	537	429	385	317	196
7,694	6,545	4,066	4,236	3,886	3,803	5,432
141	88	93	90	129	109	159
53	56	59	66	74	33	17
71	56	44	38	40	42	41
726	783	1,606	2,425	2,082	2,528	2,734
\$ 60,969	\$ 49,004	\$ 41,516	\$ 36,233	\$33,596	\$31,882	\$ 32,898
46,909	38,038	31,259	25,880	23,570	22,484	24,435
3,936	1,935	1,068	676	588	459	369
113	44	47	58	41	93	713
688	618	606	583	875	640	793
158	153	165	161	266	245	–
51,804	40,788	33,145	27,358	25,340	23,921	26,310
1,333	1,333	1,333	1,333	1,333	1,333	1,333
7,832	6,883	7,038	7,542	6,923	6,628	5,317
–	–	–	–	–	–	(62)
9,165	8,216	8,371	8,875	8,256	7,961	6,588
\$ 60,969	\$ 49,004	\$ 41,516	\$ 36,233	\$ 33,596	\$ 31,882	\$ 32,898

STATEMENT OF COMPREHENSIVE INCOME

for the year ended December 31

<i>(in millions of Canadian dollars)</i>	2018*	2017	2016
Financing and investment revenue:			
Loan	2,207	1,915	1,720
Finance lease	–	–	1
Operating lease	–	–	–
Debt relief	–	–	–
Marketable securities	257	93	73
Investments	9	9	9
Total financing and investment revenue	2,473	2,017	1,803
Interest expense	1,219	715	450
Leasing and financing related expenses	33	45	37
Net Financing and Investment Income	1,221	1,257	1,316
Loan Guarantee Fees	48	43	40
Insurance premiums and guarantee fees	243	239	229
Reinsurance ceded	(39)	(39)	(37)
Net Insurance Premiums and Guarantee Fees	204	200	192
Other (Income) Expenses	(98)	34	76
Administrative Expenses	497	431	385
Income before Provision and Claims-Related Expenses	1,074	1,035	1,087
Provision for (Reversal of) Credit Losses	(11)	(119)	(31)
Claims-Related Expenses (Recovery)	255	157	46
Net Income	830	997	1,072
Other comprehensive income (loss)	44	66	26
Comprehensive Income	\$ 874	\$ 1,063	\$ 1,098

* 2018 through 2010 are based on IFRS; 2009 numbers are based on previous Canadian GAAP.

2015	2014	2013	2012	2011	2010	2009
1,475	1,239	1,174	1,116	1,009	1,004	1,321
5	5	6	6	7	8	9
–	50	55	17	21	32	32
–	–	–	–	4	25	49
60	45	32	36	46	47	41
8	6	8	5	12	8	3
1,548	1,345	1,275	1,180	1,099	1,124	1,455
183	70	30	108	93	147	381
28	48	49	33	32	53	68
1,337	1,227	1,196	1,039	974	924	1,006
41	36	36	38	32	33	24
224	218	215	216	251	221	197
(30)	(23)	(22)	(20)	(17)	(11)	–
194	195	193	196	234	210	197
(200)	(76)	109	16	(61)	49	76
351	327	310	308	284	273	246
1,421	1,207	1,006	949	1,017	845	905
437	(39)	30	(340)	125	(631)	431
59	117	159	(38)	247	1	216
925	1,129	817	1,327	645	1,475	258
24	(155)	119	51	–	–	–
\$ 949	\$ 974	\$ 936	\$ 1,378	\$ 645	\$ 1,475	\$ 258

CORPORATE ACCOUNT

Financial Arrangements Facilitated

<i>(in millions of Canadian dollars)</i>	2018*	2017	2016
Financing			
Direct financing	27,109	26,756	26,587
Guarantees	2,053	1,601	1,483
	29,162	28,357	28,070
FinDev Canada business facilitated	39	–	–
Total	29,201	28,357	28,070
Insurance			
Credit insurance	58,555	55,827	55,724
Financial institutions insurance	4,259	8,205	7,421
Contract insurance and bonding	10,204	8,795	8,098
Political risk insurance	2,438	2,551	2,728
Total	75,456	75,378	73,971
Financial and Other Data			
Financing <i>(in millions of Canadian dollars)</i>			
Value of gross loans receivable	54,609	51,199	55,375
Value of investments	1,342	1,124	1,005
Value of undisbursed loans	20,778	20,784	19,147
Value of undisbursed investments	736	785	914
Value of loan disbursements	31,240	27,625	22,709
Value of disbursements for investments	268	270	237
Value of liability on loan guarantees	2,993	2,473	2,411
Undisbursed amounts on loan guarantees	281	143	103
Amounts available for allocation under confirmed LOC	121	112	181
Loan amounts rescheduled	–	–	24
Loan amounts written off	193	5	193
Number of current lines of credit and protocols	8	12	13
Insurance <i>(in millions of Canadian dollars)</i>			
Value of liability on insurance and guarantees	23,930	21,648	22,693
Value of claims paid	74	201	110
Value of claims recovered	56	44	23
Value of claims outstanding at end of year	772	791	732
Value of claims under consideration at end of year	319	310	305
Number of policies issued	7,980	6,750	6,490
Number of insurance policies and guarantees in force	7,776	7,318	7,302

* 2018 through 2010 are based on IFRS; 2009 numbers are based on previous Canadian GAAP.

2015	2014	2013	2012	2011	2010	2009
24,277	20,613	17,497	13,754	13,734	12,472	11,148
1,133	963	851	864	893	936	761
25,410	21,576	18,348	14,618	14,627	13,408	11,909
-	-	-	-	-	-	-
25,410	21,576	18,348	14,618	14,627	13,408	11,909
60,175	56,020	56,224	54,087	62,872	52,073	52,658
7,666	11,415	10,630	9,295	13,914	8,324	6,037
8,149	7,216	7,467	6,594	8,228	8,391	9,543
2,805	2,643	2,743	2,855	2,859	2,420	2,622
78,795	77,294	77,064	72,831	87,873	71,208	70,860
53,326	41,791	36,549	30,336	29,093	26,997	26,823
848	689	537	429	385	317	196
19,928	16,593	14,885	13,391	9,722	8,775	8,814
903	672	541	417	283	314	367
18,800	15,186	14,100	11,887	10,393	10,095	10,555
209	149	124	121	106	117	74
2,086	1,963	1,954	1,907	2,506	2,304	3,166
101	145	137	197	234	243	392
109	122	157	111	410	384	459
-	50	-	-	4	25	51
42	165	62	408	76	75	58
16	21	26	37	56	57	71
24,314	22,155	22,807	21,673	25,732	23,171	22,395
143	72	61	358	55	126	258
15	13	10	22	40	36	20
806	666	637	627	381	440	422
307	12	30	11	315	8	32
6,623	7,018	7,836	7,525	7,913	9,714	10,573
7,383	7,967	8,553	8,214	8,665	9,238	9,252

CANADA ACCOUNT

Financial Arrangements Facilitated

<i>(in millions of Canadian dollars)</i>	2018	2017	2016
Financing			
Direct financing	8,000	–	–
Insurance			
Credit insurance	15	36	28
Financial institutions insurance	–	–	–
Contract insurance and bonding	–	–	–
Political risk insurance	–	–	–
Subtotal	15	36	28
Total	8,015	36	28
Financial and Other Data			
Financing <i>(in millions of Canadian dollars)</i>			
Value of total loans and notes receivable	6,593	2,586	2,998
Value of undisbursed loans	1,210	–	–
Value of loan disbursements (net of guarantees)	5,290	–	–
Value of liability on loan guarantees	76	98	121
Undisbursed amounts on loan guarantees	–	–	–
Amounts available for allocation	–	–	–
Loan amounts rescheduled	–	–	–
Number of transactions financed	1	–	–
Insurance <i>(in millions of Canadian dollars)</i>			
Value of liability on insurance and guarantees	–	5	3
Value of claims paid	–	–	–
Value of claims recovered	–	–	–
Value of claims outstanding at end of year	–	–	–
Number of policies issued	–	–	–
Number of insurance policies and guarantees in force	1	1	1

* Includes amounts disbursed in conjunction with the Ontario Financing Authority relating to loans in the automotive sector.

2015	2014	2013	2012	2011	2010	2009
156	25	–	1	–	76	14,222
41	28	30	41	44	129	628
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
41	28	30	41	44	129	628
197	53	30	42	44	205	14,850
3,359	2,924	2,821	3,164	3,442	4,720	5,905
–	–	–	–	–	505	607
156	25	–	–	569*	446*	14,398*
142	164	186	208	241	295	385
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	2	1
2	1	–	–	–	5	16
7	6	9	9	8	10	120
–	–	–	–	–	–	–
–	–	–	–	–	–	11
–	–	–	–	13	13	13
–	–	–	–	–	1	103
1	1	1	1	4	7	53

GLOSSARY OF FINANCIAL TERMS

Actuarial Gains or Losses – Changes in the value of the defined benefit obligation and the plan assets due to differences between actuarial assumptions and what has actually occurred and due to changes in actuarial assumptions.

Actuarial Valuation (re: Pension Benefit Plans) – An assessment of the financial status of a benefit plan performed by an independent actuary. It includes the valuation of any plan assets and the defined benefit obligation using estimates of future events that will affect the costs and obligation for employee benefits plans.

Amortized Cost – The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

Basis Point – One one-hundredth of a percentage point.

CDOR – Canadian Dollar Offered Rate – An industry determined financial benchmark and the recognized benchmark index for Canadian bankers' acceptances with a term to maturity of one year or less.

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 Risk – The risk of loss incurred if a counterparty fails to meet its financial commitments.

Defined Benefit Obligation – The actuarial present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Derivative Instruments – Financial contracts that derive their value from changes in interest rates, foreign exchange rates, credit spreads, commodity prices, equities, market indexes or other financial measures. Such instruments include futures, interest rate, foreign exchange, equity, commodity and credit default swaps.

Effective Interest Rate – 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 or financial liability.

Exposure at Default – Generally represents the expected gross exposure – outstanding amount for on-balance sheet exposure and loan equivalent amount for off-balance sheet exposure.

Facultative Reinsurance – Reinsurance provided on a transactional basis.

Foreign Exchange Risk – The risk of loss or harm due to changes in spot and forward prices, and/or volatility of currency exchange rates.

Gross Loans Receivable – Principal amounts outstanding under existing loan agreements.

Hedge – A risk management practice used to manage interest rate or foreign exchange exposures arising from the normal course of business operations.

Individually Impaired Loans – Loans where there is objective evidence that an impairment loss has occurred.

Insurance Risk – The risk of loss or harm due to actual experience being different from that assumed when an insurance product was designed and priced.

Interest Rate Risk – The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

LIBOR – London Inter-Bank Offered Rate – The interest rate at which banks in London are prepared to lend funds to first-class banks.

Liquidity Risk – 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.

Loss Given Default – Measures the severity of loss on a facility in the event of a borrower's default, expressed as a percentage of exposure at default.

Market Risk – The risk of loss or harm due to adverse movements in market prices, interest rates and/or foreign exchange rates.

Net Finance Margin – Net financing and investment income expressed as a percentage of average income earning assets.

Net Financing and Investment Income – Revenue earned on financing, leasing, marketable securities and investment assets, less interest and leasing and financing related expenses.

Net Revenue – Net income excluding the provision for credit losses, claims-related expenses, administrative expenses and unrealized gains and losses.

Operational Risk – The risk of loss or harm resulting from inadequate or failed internal processes, people and systems or from external events.

Performing Loans – Loans for which there is reasonable assurance that EDC can collect the principal and interest on time.

Probability of Default – Measures the likelihood that a borrower will default within a one-year time horizon, expressed as a percentage.

Productivity Ratio – Administrative expenses expressed as a percentage of net revenue excluding the impact due to fluctuations in the exchange rate from the rate projected in the Corporate Plan.

Structured Entity (SE) – An entity created to accomplish a narrow and well-defined objective. The SE is designed so that voting or similar rights are not the dominant factor in deciding who controls the entity.

Undisbursed Loan Commitments – A contractual amount under an existing loan agreement that has yet to be advanced to the borrower.

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