Export Development Canada

Quarterly Financial Report
March 31, 2018
Unaudited

TRADE UNLIMITED

Canada

EDC

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

OVERVIEW

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

Economic Environment

The first quarter of 2018 continued the trend witnessed over the past two years, which has seen global economic growth strengthen, spread to more countries, and consistently exceed forecasters' expectations, despite the heightened risk of U.S. trade protectionism.

Globally, there have been recent improvements in the economies of both the United States and the European Union. Labour markets have tightened as unemployment rates have fallen below pre-crisis levels, resulting in spare capacity being fully utilized. Global trade growth has picked up in recent quarters and forward-looking indicators of production are also positive, notwithstanding recent concerns of escalating U.S.-China retaliatory tariffs.

In Canada, recent data suggests that while a small subset of Canadian exporters are apprehensive that the NAFTA talks are having a negative impact on their operations, the majority do not appear to be overly concerned, despite the fact that these talks are expected to result in a new agreement on North American trade rules. Overall, Canadian exporters remain relatively optimistic about the strength and durability of the ongoing global recovery.

Business Facilitated

Financing business facilitated increased by 61% when compared to the same period in 2017 primarily due to increases in the oil and gas and the infrastructure and environment sectors.

Business facilitated within our financial institutions insurance product group declined by 54% due to a decrease in demand for the product by an existing policyholder.

	For the three months ended	
(in millions of Canadian dollars)	**Mar 2018**	Mar 2017
Business Facilitated		
Direct lending	**4,192**	2,415
Project finance	**469**	391
Loan guarantees	**310**	294
Investments	**49**	4
Total financing and investments	**5,020**	3,104
Credit insurance	**13,750**	13,826
Financial institutions insurance	**1,302**	2,818
Contract insurance and bonding	**1,447**	1,142
Political risk insurance	**231**	177
Total insurance	**16,730**	17,963
Total business facilitated	**$21,750**	$21,067

SUMMARY OF FINANCIAL RESULTS

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. We did not restate the prior comparative period, as permitted by the standard. Accordingly, the current period results are based on IFRS 9, while prior period 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 requirement as per IFRS 9 is provided in Note 1 of the Condensed Consolidated Financial Statements.

Financial Performance

	For the three months ended		
(in millions of Canadian dollars)	**Mar 2018**	Dec 2017	Mar 2017
Net financing and investment income	**305**	306	334
Net insurance premiums and guarantee fees(1)	**63**	62	60
Realized gains (losses)(2)	**5**	(10)	(4)
	373	358	390
Administrative expenses	**116**	115	104
Provision for (reversal of) credit losses(3)	**(32)**	(181)	83
Claims-related expenses	**23**	8	35
Income before unrealized (gains) losses	**266**	416	168
Unrealized (gains) losses on financial instruments(2)	**(55)**	(30)	76
Net income	**$321**	$446	$92
Period average U.S.$ equivalent of CAD 1.00	**0.791**	0.787	0.756

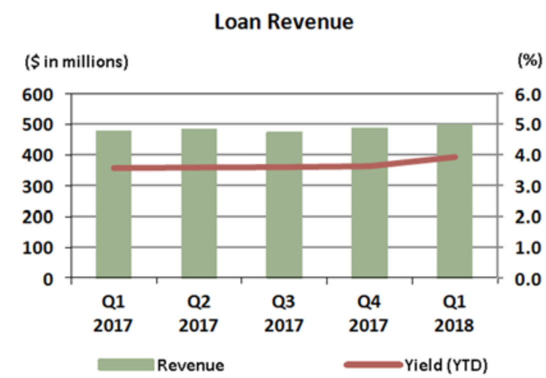
(1) Includes loan guarantee fees.

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

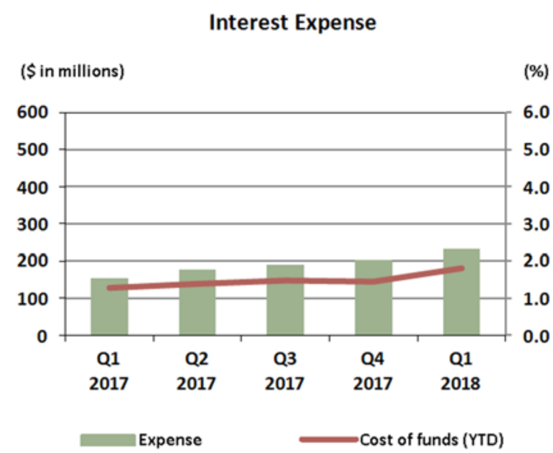
(3) The current period has been prepared in accordance with IFRS 9. Prior period amounts have not been restated and are reported in accordance with IAS 39.

We experienced fluctuations in our net income between periods largely caused by changes in provisioning requirements and volatility in the fair value of our financial instruments due to market conditions. These changes are further discussed beginning on page 7.

Total loan revenue and loan yield has increased since the fourth quarter of 2017 mainly due to increases in U.S. interest rates as the majority of our loans are denominated in U.S. dollars.



Interest expense increased during the first three months of 2018 mainly as a result of the increase in U.S. interest rates, along with increased borrowings to finance the growth in our marketable securities (refer to page 9). The majority of our funding is floating rate and denominated in U.S. dollars, consistent with our loan assets.

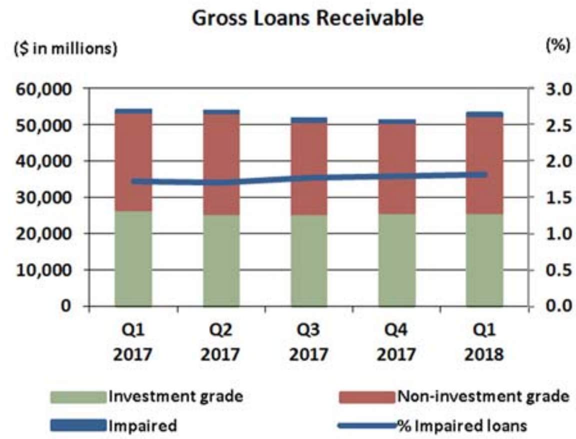


Financial Position

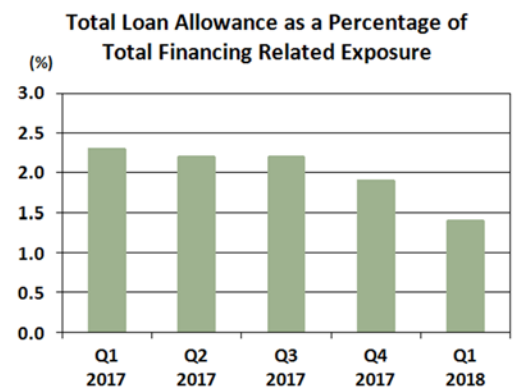
As at *(in millions of Canadian dollars)*	**Mar 2018**	Dec 2017	Mar 2017
Total assets	**68,220**	60,120	62,129
Total liabilities	**58,447**	50,080	53,038
Equity	**9,773**	10,040	9,091
Gross loans receivable	**53,162**	51,199	54,102
Total allowances*	**1,524**	1,903	2,212
Period-end U.S.$ equivalent of CAD 1.00	**0.776**	0.795	0.752

**The current period has been prepared in accordance with IFRS 9. Prior period amounts have not been restated and are reported in accordance with IAS 39.*

Gross loans receivable has increased in the first quarter primarily due to foreign exchange translation and net disbursements. The increase in non-investment grade exposures in the first quarter of 2018 is primarily due to downward credit migration of an obligor in the aerospace sector.



Total loan allowance as a percentage of total financing related exposure decreased when compared to the prior quarter due to the adoption of the impairment model requirements of IFRS 9 which resulted in a decrease of $400 million to the opening loan allowance.



Impact of Foreign Exchange Translation on Financial Results

Our foreign currency-denominated results are impacted by exchange rate fluctuations. In the first quarter of 2018, the Canadian dollar average for the quarter strengthened against the U.S. dollar, which had an unfavourable impact on our financial results, as the components of net income as well as our business facilitated are translated at the average exchange rates. Had the average exchange rate remained stable in the first quarter, both our net income and business facilitated would have been higher for the period.

In contrast, the Canadian dollar weakened against the U.S. dollar at the end of the first quarter relative to the prior quarter, resulting in an increase to our assets and liabilities, which are translated at the rate prevailing on the statement of financial position date.

The following table reflects the estimated impact on our financial results for the period ended March 31, 2018 had the Canadian dollar remained stable relative to the U.S. dollar:

	Closing exchange rate at	
(in millions of Canadian dollars)	Dec 2017	Mar 2017
Financial Position		
Increase (decrease) in loans receivable	(964)	1,307
Increase (decrease) in loans payable	(1,259)	1,707

	Average exchange rate for the three months ended	
(in millions of Canadian dollars)	Dec 2017	Mar 2017
Financial Performance		
Increase in net income	1	11
Increase in business facilitated	75	686

Risk Management

Our business activities expose us to a wide variety of risks including strategic, financial and operational risks. We manage risk with a three lines of defence risk governance structure, which emphasizes and balances strong central oversight and control of risk with clear accountability for and ownership of risk within the "front lines". The structure supports the cascade of EDC's risk appetite throughout the organization and provides forums for risks to be appropriately considered, discussed, debated and factored into business decisions at all levels and across all functions. For a more comprehensive discussion on our risk management, please refer to pages 62-71 of our 2017 Annual Report. Refer to Note 9 of the accompanying financial statements for details on financial instrument risks.

FIRST QUARTER HIGHLIGHTS

Net income was $321 million, a decrease of $125 million when compared to the previous quarter primarily due to changes in provisioning requirements.

We recorded a **provision release** of $32 million in the first quarter of 2018 compared to a provision release of $181 million in the previous quarter. The $32 million provision release is mainly due to improved credit quality in our loan guarantee portfolio. In the fourth quarter of 2017, we recorded a provision release of $181 million largely due to the impact of updates to the models used to generate the loss given default assumptions used in the allowance calculation and the impact of updating the disbursement assumption on our loan commitments.

	Three months ended	
(in millions of Canadian dollars)	**Mar 2018**	Dec 2017
Income before provisions, claims-related expenses and unrealized (gains) losses	**257**	243
Reversal of provision for credit losses[(1)]	**(32)**	(181)
Claims-related expenses	**23**	8
Unrealized (gains) losses on financial instruments[(2)]	**(55)**	(30)
Net income	**$321**	$446

[(1)] The current period has been prepared in accordance with IFRS 9. Prior period amounts have not been restated and are reported in accordance with IAS 39.

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

Other items of note in the first quarter:
In the first quarter of 2018, we paid a dividend of $969 million to the Government of Canada (2017 – $786 million).

FINANCIAL RESULTS – YEAR TO DATE

Prior Year Comparison

Net income for the first three months of 2018 was $229 million higher than net income reported for the same period in 2017. We experienced variances in other (income) expenses as well as a reduction in the provision for credit losses.

Other income for the first three months of 2018 was $140 million higher when compared to the same period in 2017. The variance is largely due to the volatility associated with our financial instruments carried at fair value through profit or loss.

We recorded a **provision release** of $32 million for the first quarter of 2018 compared to a provision charge of $83 million in the prior year period. In 2017, the provision charge was mainly due to downward credit migration in the loan portfolio whereas in 2018, improved credit quality in our loan guarantee portfolio resulted in a provision release.

Corporate Plan Comparison

Financial Performance

	Three months ended		Year ended
	Mar 2018	Mar 2018	Dec 2018
(in millions of Canadian dollars)	**Actual Results**	Corporate Plan	Corporate Plan
Net financing and investment income	**305**	325	1,295
Net insurance premiums and guarantee fees*	**63**	58	252
Other (income) expenses	**(60)**	-	(2)
Administrative expenses	**116**	121	527
Provision for (reversal of) credit losses	**(32)**	2	11
Claims-related expenses	**23**	23	91
Net income	**321**	237	920
Other comprehensive income (loss)	**(19)**	22	89
Comprehensive income	**$302**	$259	$1,009

**Includes loan guarantee fees.*

Net income for the first three months of 2018 was $84 million higher than the Corporate Plan primarily due to an increase in other (income) expenses and a reduction in the provision for credit losses.

Other income was $60 million higher than the Corporate Plan for the first three months of 2018. The variance is largely due to the volatility associated with our financial instruments carried at fair value. Due to the volatility and difficulty in estimating fair value gains or losses on financial instruments, a forecast for these items is not included in the Corporate Plan.

We recorded a **provision release** of $32 million for the first quarter of 2018 compared to a provision charge of $2 million in the Corporate Plan. The $32 million provision release is mainly due to improved credit quality in our loan guarantee portfolio which was not contemplated in the Corporate Plan.

We recorded an **other comprehensive loss** of $19 million for the first three months of 2018 mainly due to negative returns on plan assets as we re-measured our retirement benefit assets and liabilities. The Corporate Plan had projected that the discount rate used to value our pension obligation would increase resulting in other comprehensive income; however, the discount rate remained constant in 2018.

Financial Position

As at *(in millions of Canadian dollars)*	**Mar 2018 Actual Results**	Mar 2018 Corporate Plan	Dec 2018 Corporate Plan
Cash and marketable securities	**13,301**	11,361	10,664
Derivative instruments	**382**	280	280
Loans receivable	**53,137**	53,990	54,687
Allowance for losses on loans receivable	**(1,040)**	(1,297)	(1,201)
Investments at fair value through profit or loss	**1,209**	1,142	1,236
Other assets	**1,231**	758	823
Total Assets	**$68,220**	$66,234	$66,489
Loans payable	**55,470**	53,226	52,794
Derivative instruments	**1,718**	2,107	2,107
Allowance for losses on loan commitments	**30**	25	25
Premium and claims liabilities	**670**	663	579
Other liabilities	**559**	623	644
Equity	**9,773**	9,590	10,340
Total Liabilities and Equity	**$68,220**	$66,234	$66,489

Cash and marketable securities totalled $13.3 billion at March 31, 2018, $1.9 billion higher than Corporate Plan. 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. 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 anticipated loan disbursements and debt maturities.

Loans payable totalled $55.5 billion at March 31, 2018, $2.3 billion higher than Corporate Plan mainly due to the funding required for the increase in our marketable securities portfolio as well as foreign exchange translation.

NON-IFRS PERFORMANCE MEASURES

Claims Ratio – Credit Insurance Product Group

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

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

Net claims incurred include claims paid net of recoveries and estimated recoveries of $6 million (2017 – $18 million) and an increase in actuarial liabilities of $3 million (2017 – decrease of $1 million).

	Three months ended	
(in millions of Canadian dollars)	**Mar 2018**	Mar 2017
Premiums earned	**26**	25
Reinsurance ceded	**(2)**	(1)
Net written premium	**$24**	$24
Net claims incurred	**$9**	$17
Claims ratio	**38%**	71%

STATEMENT OF MANAGEMENT RESPONSIBILITY

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

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

Based on our knowledge, these unaudited condensed consolidated quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at March 31, 2018 and for the periods presented in the condensed consolidated quarterly financial statements.

Benoit Daignault,
President and CEO

Ken Kember,
Senior Vice-President & Chief Financial Officer

Ottawa, Canada
May 4, 2018

Export Development Canada
Condensed Consolidated Financial Statements

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

	Notes	**Mar 2018**	Dec 2017	Mar 2017
Assets				
Cash		**296**	157	141
Marketable securities		**13,005**	8,057	6,937
Derivative instruments	4	**382**	315	256
Assets held-for-sale		**35**	34	47
Loans receivable	2	**53,137**	51,127	53,994
Allowance for losses on loans receivable	2	**(1,040)**	(1,363)	(1,604)
Investments at fair value through profit or loss		**1,209**	1,124	1,048
Recoverable insurance claims	3	**70**	65	56
Reinsurers' share of premium and claims liabilities	5	**130**	103	103
Other assets		**648**	138	791
Retirement benefit assets		**57**	69	72
Property, plant and equipment		**53**	54	53
Intangible assets		**106**	106	96
Building under finance lease		**132**	134	139
Total Assets		**$68,220**	$60,120	$62,129
Liabilities and Equity				
Accounts payable and other credits		**119**	123	86
Loans payable		**55,470**	47,114	49,226
Derivative instruments	4	**1,718**	1,690	2,438
Obligation under finance lease		**153**	154	157
Retirement benefit obligations		**191**	185	245
Allowance for losses on loan commitments	2	**30**	14	82
Premium and claims liabilities	5	**670**	608	633
Loan guarantees	2	**96**	192	171
Total Liabilities		**58,447**	50,080	53,038
Financing commitments (Note 2) and contingent liabilities (Note 6)				
Equity				
Share capital	7	**1,333**	1,333	1,333
Retained earnings		**8,440**	8,707	7,758
Total Equity		**9,773**	10,040	9,091
Total Liabilities and Equity		**$68,220**	$60,120	$62,129

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 May 4, 2018.

Herbert M. Clarke
Director

Benoit Daignault
Director

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in millions of Canadian dollars)

		For the three months ended		
	Notes	**Mar 2018**	Dec 2017	Mar 2017
Financing and Investment Revenue:				
Loan	10	**498**	486	475
Marketable securities		**42**	28	20
Investments		**2**	2	2
Total financing and investment revenue		**542**	516	497
Interest expense	11	**229**	200	152
Financing related expenses		**8**	10	11
Net Financing and Investment Income		**305**	306	334
Loan Guarantee Fees		**12**	11	10
Insurance premiums and guarantee fees		**60**	62	61
Reinsurance ceded		**(9)**	(11)	(11)
Net Insurance Premiums and Guarantee Fees	12	**51**	51	50
Other (Income) Expenses	14	**(60)**	(20)	80
Administrative Expenses	15	**116**	115	104
Income before Provision and Claims-Related Expenses		**312**	273	210
Provision for (Reversal of) Credit Losses	2	**(32)**	(181)	83
Claims-Related Expenses	13	**23**	8	35
Net Income		**321**	446	92
Other comprehensive income (loss):				
Retirement benefit plans re-measurement		**(19)**	34	22
Comprehensive Income		**$302**	$480	$114

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(in millions of Canadian dollars)

		For the three months ended		
	Notes	**Mar 2018**	Dec 2017	Mar 2017
Share Capital	7	**1,333**	1,333	1,333
Retained Earnings				
Balance beginning of period		**8,707**	8,227	8,430
IFRS 9 impairment transition adjustment	1	**400**	-	-
Revised balance at beginning of period		**9,107**	8,227	8,430
Net income		**321**	446	92
Other comprehensive income (loss)				
Retirement benefit plans re-measurement		**(19)**	34	22
Dividend paid	7	**(969)**	-	(786)
Balance end of period		**8,440**	8,707	7,758
Total Equity at End of Period		**$9,773**	$10,040	$9,091

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions of Canadian dollars)

	For the three months ended		
	Mar 2018	Dec 2017	Mar 2017
Cash Flows from (used in) Operating Activities			
Net income	**321**	446	92
Adjustments to determine net cash flows from (used in) operating activities			
Provision for (reversal of) credit losses	**(32)**	(181)	83
Actuarial change in the net allowance for claims on insurance	**14**	(56)	12
Depreciation and amortization	**10**	10	7
Realized (gains) and losses	**(10)**	9	(7)
Changes in operating assets and liabilities			
Change in accrued interest and fees on loans receivable	**(47)**	1	-
Change in accrued interest and fair value of marketable securities	**61**	29	6
Change in accrued interest and fair value of loans payable	**(49)**	(121)	57
Change in derivative instruments	**(169)**	134	(189)
Other	**(67)**	(49)	(43)
Loan disbursements	**(7,795)**	(9,024)	(5,086)
Loan repayments and principal recoveries from loan asset sales	**7,266**	9,948	6,003
Net cash from (used in) operating activities	**(497)**	1,146	935
Cash Flows from (used in) Investing Activities			
Disbursements for investments	**(84)**	(67)	(71)
Receipts from investments	**49**	44	22
Purchases of marketable securities	**(4,745)**	(2,287)	(589)
Sales/maturities of marketable securities	**1,458**	886	649
Purchases of property, plant and equipment	**(1)**	(13)	-
Purchases of intangible assets	**(6)**	(33)	-
Net cash from (used in) investing activities	**(3,329)**	(1,470)	11
Cash Flows from (used in) Financing Activities			
Issue of long-term loans payable	**5,960**	3,467	4,226
Repayment of long-term loans payable	**(3,020)**	(2,547)	(2,686)
Issue of short-term loans payable	**11,126**	6,833	6,010
Repayment of short-term loans payable	**(7,614)**	(7,885)	(7,900)
Disbursements from sale/maturity of derivative instruments	**(90)**	4	-
Receipts from sale/maturity of derivative instruments	**-**	(4)	-
Dividend paid	**(969)**	-	(786)
Net cash from (used in) financing activities	**5,393**	(132)	(1,136)
Effect of exchange rate changes on cash and cash equivalents	**46**	26	-
Net increase (decrease) in cash and cash equivalents	**1,613**	(430)	(190)
Cash and cash equivalents			
Beginning of period	**1,627**	2,057	1,891
End of period	**$3,240**	$1,627	$1,701
Cash and cash equivalents are comprised of:			
Cash	**296**	157	141
Cash equivalents included within marketable securities	**2,944**	1,470	1,560
	$3,240	$1,627	$1,701
Operating Cash Flows from Interest			
Cash paid for interest	**$192**	$165	$127
Cash received for interest	**$436**	$480	$432

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

Notes to the Condensed Consolidated Financial Statements

1. Significant Accounting Policies

Basis of Presentation

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

Except as indicated below, these condensed interim consolidated financial statements follow the same accounting policies and methods of computation as our audited consolidated financial statements for the year ended December 31, 2017. They should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2017 and the accompanying notes as set out on pages 88-141 of our 2017 Annual Report.

Basis of Consolidation

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

Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations adopted in the quarter

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

IFRS 9 – Financial Instruments – In July 2014, the IASB issued the final version of *IFRS 9 - Financial Instruments* (IFRS 9), which is applicable for reporting periods beginning on or after January 1, 2018 and replaces the guidance in *IAS 39 Financial Instruments: Recognition and Measurement* (IAS 39). As 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, we only 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. Our updated accounting policy is as follows:

Allowance for Losses on Loans Receivable, Loan Commitments and Loan Guarantees

The allowance for losses on loans receivable, loan commitments and loan guarantees represents management’s best estimate of probable credit losses and is based on the expected credit loss model.

Financial assets subject to an impairment assessment include loans held at amortized cost. The allowance for credit losses related to loans receivable are presented in the allowance for losses on loans receivable in the condensed 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 are presented in allowance for losses on loan commitments and allowances for credit losses related to loan guarantees are included in the liability for loan guarantees in the condensed consolidated statement of financial position.

Changes in the allowance for credit losses on loans receivable, loan commitments and loan guarantees 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 condensed consolidated statement of comprehensive income.

Expected Credit Loss Impairment Model

The expected credit loss model applies a three-stage approach to measure our 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 material credit obligation to EDC.

Loan guarantees with impaired obligors are identified using the same criteria on the underlying loan as 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.

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. 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.

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 does not use the low credit risk exemption stated in the standard, 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 the date of modification is used to assess significant increase in credit risk.

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 group 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.

Transition Impact

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

	Impairment allowance under IAS 39 as at December 31, 2017				Impairment allowance under IFRS 9 as at January 1, 2018			
(in millions of Canadian dollars)	**Collective**	**Individual**	**Total**	**Transition Adjustment**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans receivable	835	528	1,363	(339)	113	388	523	1,024
Loan commitments	14	-	14	(5)	4	5	-	9
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. We implemented the disclosure amendments on January 1, 2018 in conjunction with the implementation of IFRS 9, as noted above.

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. Loan guarantee fees were assessed to be in scope of IFRS 15, however the adoption of the new standard did not have an impact on the consolidated financial statements.

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. This interpretation, which resulted in no change to our financial statements, was adopted on January 1, 2018.

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

The following amendments issued by the IASB during the quarter have been assessed as having a possible effect on EDC in the future.

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 and will only impact EDC upon a plan amendment, curtailment or settlement occurring.

Use of Estimates and Key Judgments

The preparation of financial statements requires the use of estimates and key judgments. Judgment is required in the selection of accounting policies, and their application requires the use of estimates and assumptions to arrive at the reported carrying values of our assets and liabilities. Areas where management has made use of significant estimates and exercised judgment include the allowance for losses on loans receivable, loan commitments and loan guarantees, assets held-for-sale, premium and claims liabilities, recoverable insurance claims, retirement benefit plans and financial instruments measured at fair value. Refer to page 90 of our 2017 Annual Report for details.

2. Loans and Allowance for Losses

Loans Receivable

(in millions of Canadian dollars)	Mar 2018	Dec 2017	Mar 2017
Performing:			
Past due*	**39**	99	76
Current year and beyond	**52,161**	50,185	53,098
Performing gross loans receivable	**52,200**	50,284	53,174
Individually impaired loans	**962**	915	928
Gross loans receivable	**53,162**	51,199	54,102
Accrued interest and fees receivable	**273**	241	255
Deferred loan revenue and other credits	**(298)**	(313)	(363)
Total loans receivable	**$53,137**	$51,127	$53,994

* *Receivables of $39 million were less than 30 days past due. In the first week of April 2018, we received payments of $36 million (December 2017 - $99 million; first week of January 2018 - $93 million and March 2017 - $72 million; first week of April 2017 - $67 million).*

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

(in millions of Canadian dollars)	2018	2017
Balance at January 1	**51,199**	55,375
Disbursements	**7,795**	5,086
Principal repayments	**(7,266)**	(5,890)
Principal recoveries from loan asset sales	**-**	(113)
Loans written off	**-**	(19)
Transferred to held-for-sale	**-**	(5)
Capitalized interest	**1**	1
Foreign exchange translation	**1,433**	(333)
Balance at March 31	**$53,162**	$54,102

Individually Impaired Loans Receivable

(in millions of Canadian dollars)	Mar 2018	Dec 2017	Mar 2017
Gross loans receivable			
Sovereign	**9**	9	8
Commercial	**953**	906	920
	962	915	928
Less: Deferred loan revenue and other credits	**15**	17	17
Individual allowance	**558**	528	521
Carrying amount of individually impaired loans	**$389**	$370	$390

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

(in millions of Canadian dollars)	**2018**	2017
Balance at January 1	**915**	1,037
Loans classified as impaired	**22**	21
Disbursements on loan guarantees called	**17**	-
Loans reinstated to performing*	**(7)**	(92)
Principal repayments	**(5)**	(10)
Loans written off	**-**	(14)
Transfer to assets held-for-sale	**-**	(5)
Foreign exchange translation	**20**	(9)
Balance at March 31	**$962**	$928

* *Includes loans made performing following the restructuring of credit agreements.*

Financing Commitments

The following table shows our outstanding financing commitments by type:

(in millions of Canadian dollars)	**Mar 2018**	Dec 2017	Mar 2017
Signed loan commitments	**20,593**	20,784	18,693
Letters of offer	**4,125**	3,756	3,179
Unallocated confirmed lines of credit	**130**	112	154
Total financing commitments	**$24,848**	$24,652	$22,026

Allowance for Losses

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

			Mar 2018			Dec 2017(1)			Mar 2017(1)
(in millions of Canadian dollars)	**Gross carrying amount**	**Allowance for losses (2)**	**Net carrying amount**	Gross carrying amount	Allowance for losses	Net carrying amount	Gross carrying amount	Allowance for losses	Net carrying amount
Loans receivable	**53,162**	**1,040**	**52,122**	51,199	1,363	49,836	54,102	1,604	52,498
Loan commitments	**20,593**	**30**	**20,563**	20,784	14	20,770	18,693	82	18,611
Loan guarantees	**2,635**	**40**	**2,595**	2,616	135	2,481	2,532	108	2,424
Total	**$76,390**	**$1,110**	**$75,280**	$74,599	$1,512	$73,087	$75,327	$1,794	$73,533

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

(2) *Includes allowance on other receivables of $2 million (December 2017 - $4 million, March 2017 - $5 million).*

The following tables reconcile the opening and closing allowance for losses on loans receivable, loan commitments and loan guarantees for the quarter ended March 2018. Reconciling items include the allowance impact due to the following:

- The impact of transfers between stages before any corresponding re-measurement of allowance;
- Re-measurement as a result of transfers 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;
- Net disbursements or repayments and maturities, which include loan disbursements and repayments on existing loans receivable, loan commitments and loan guarantees and include loan assets that were derecognized due to a modification;
- Changes in risk parameters including credit risk rating changes, changes in model inputs, collateral values and assumptions that did not result in a transfer between stages;
- Write-off of assets deemed uncollectible; and
- Effect of changes in foreign exchange rates.

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

(in millions of Canadian dollars)	**Stage 1**	**Stage 2**	**Stage 3**	**2018 Total**
Loans receivable				
Balance at January 1	113	388	523	**1,024**
Provision for (reversal of) credit losses				
Transfer to stage 1	24	(20)	(4)	**-**
Transfer to stage 2	(3)	3	-	**-**
Transfer to stage 3	-	(1)	1	**-**
Re-measurements	(10)	3	(2)	**(9)**
New originations	17	2	11	**30**
Net repayments and maturities	(13)	(11)	(2)	**(26)**
Changes in risk parameters	(12)	(14)	19	**(7)**
Total provision for (reversal of) credit losses	3	(38)	23	**(12)**
Foreign exchange translation	3	13	12	**28**
Balance at March 31	119	363	558	**1,040**
Loan commitments				
Balance at January 1	4	5	-	**9**
Provision for credit losses				
Transfer to stage 2	(1)	1	-	**-**
Re-measurements	-	8	3	**11**
Changes in risk parameters	1	11	(2)	**10**
Total provision for credit losses	-	20	1	**21**
Balance at March 31	4	25	1	**30**
Loan guarantees				
Balance at January 1	16	9	54	**79**
Reversal of provision for credit losses				
Transfer to stage 1	2	(2)	-	**-**
Re-measurements	(1)	-	4	**3**
New originations	4	-	-	**4**
Net repayments and maturities	-	(1)	(34)	**(35)**
Changes in risk parameters	(12)	(1)	-	**(13)**
Total reversal of provision for credit losses	(7)	(4)	(30)	**(41)**
Foreign exchange	-	1	1	**2**
Balance at March 31	9	6	25	**40**
Total allowance for losses on loans receivable, loan commitments and loan guarantees	$132	$394	$584	**$1,110**

The following tables reflect the movement in the allowance for losses on loans receivable, loan commitments and loan guarantees during the period:

					2017[3]
(in millions of Canadian dollars)	Balance at January 1	Provision for credit losses	Write-offs	Foreign exchange translation	Balance at March 31
Loans receivable[1]	1,552	76	(14)	(10)	1,604
Loan commitments	78	4	-	-	82
Loan guarantees[2]	105	3	-	-	108
Total	$1,735	$83	$(14)	$(10)	$1,794

[1] Includes allowance on other receivables of $5 million.

[2] Included in the liability for loan guarantees.

[3] Prior period amounts have not been restated and are reported in accordance with IAS 39.

The following table shows the breakdown of our provision for (reversal of) credit losses for the prior quarters:

	Three months ended	
(in millions of Canadian dollars)	Dec 2017[1]	Mar 2017[1]
Updated probability of default and loss given default models[2]	(123)	-
Changes in portfolio composition[3]	(55)	5
Update to allowance assumption[2]	(46)	-
Increased concentration threshold	(6)	(6)
Credit migration	111	84
Provision for (reversal of) credit losses	$(119)	$83

[1] Prior period amounts have not been restated and are reported in accordance with IAS 39.

[2] Refer to Note 6 in the 2017 Annual Report.

[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.

Exposure by Credit Grade

				Mar 2018		Dec 2017		Mar 2017	
	Non-credit-impaired		**Credit-impaired**						
(in millions of Canadian dollars)	**Stage 1**	**Stage 2**	**Stage 3**	**$**	**% of total**	$	% of total	$	% of total
Gross loans receivable									
Investment grade*	**23,158**	**2,432**	**-**	**25,590**	**48%**	25,642	50%	26,344	49%
Non-investment grade	**14,895**	**11,715**	**-**	**26,610**	**50%**	24,642	48%	26,830	49%
Individually impaired	**-**	**-**	**962**	**962**	**2%**	915	2%	928	2%
Total gross loans receivable	**$38,053**	**$14,147**	**$962**	**$53,162**	**100%**	$51,199	100%	$54,102	100%
Loan commitments									
Investment grade*	**12,059**	**1,276**	**-**	**13,335**	**65%**	13,892	67%	10,891	58%
Non-investment grade	**4,609**	**2,638**	**-**	**7,247**	**35%**	6,892	33%	7,791	42%
Individually impaired	**-**	**-**	**11**	**11**	**-%**	-	-%	11	-%
Total loan commitments	**$16,668**	**$3,914**	**$11**	**$20,593**	**100%**	$20,784	100%	$18,693	100%
Loan guarantees									
Investment grade*	**304**	**398**	**-**	**702**	**27%**	712	27%	720	29%
Non-investment grade	**1,595**	**299**	**-**	**1,894**	**72%**	1,832	70%	1,776	70%
Individually impaired	**-**	**-**	**39**	**39**	**1%**	72	3%	36	1%
Total loan guarantees	**$1,899**	**$697**	**$39**	**$2,635**	**100%**	$2,616	100%	$2,532	100%

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

3. Recoverable Insurance Claims

(in millions of Canadian dollars)	**2018**	2017
Balance at January 1	**65**	63
Claims paid	**17**	19
Claims recovered	**(5)**	(4)
Change in recoverable portion of cumulative claims paid	**(8)**	(22)
Foreign exchange translation	**1**	-
Balance at March 31	**$70**	$56

4. 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. Refer to page 108 of the 2017 Annual Report for a description of derivative instruments that we currently use and for information on how we manage credit, interest and foreign exchange risks arising from the use of derivatives.

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

(in millions of Canadian dollars)			**Mar 2018**			Dec 2017			Mar 2017
	Positive	**Negative**	**Total**	Positive	Negative	Total	Positive	Negative	Total
Cross currency interest rate swaps	**134**	**1,303**	**(1,169)**	167	1,329	(1,162)	137	2,150	(2,013)
Interest rate swaps	**231**	**358**	**(127)**	95	267	(172)	106	200	(94)
Foreign exchange swaps	**16**	**56**	**(40)**	53	91	(38)	12	88	(76)
Foreign exchange forwards	**1**	**1**	**-**	-	3	(3)	1	-	1
Total derivative instruments	**382**	**1,718**	**(1,336)**	315	1,690	(1,375)	256	2,438	(2,182)
Impact of netting agreements	**(333)**	**(333)**	**-**	(263)	(263)	-	(89)	(89)	-
Total	**$49**	**$1,385**	**$(1,336)**	$52	$1,427	$(1,375)	$167	$2,349	$(2,182)
Applicable collateral			**(26)**			(24)			(21)
Net amount			**$(1,362)**			$(1,399)			$(2,203)

5. Premium and Claims Liabilities

The premium and claims liabilities for our credit insurance (CI), contract insurance and bonding (CIB) and political risk insurance (PRI) product groups were as follows:

(in millions of Canadian dollars)				**Mar 2018**				Dec 2017				Mar 2017
	CI*	**CIB**	**PRI**	**Total**	CI*	CIB	PRI	Total	CI*	CIB	PRI	Total
Insurance	**280**	**40**	**350**	**670**	274	45	289	608	247	29	357	633
Reinsurance	**(10)**	**-**	**(120)**	**(130)**	(13)	(1)	(89)	(103)	(13)	(2)	(88)	(103)
Net liability	**$270**	**$40**	**$230**	**$540**	$261	$44	$200	$505	$234	$27	$269	$530

* *Includes financial institutions insurance.*

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

(in millions of Canadian dollars)	**Mar 2018**	Dec 2017	Mar 2017
Deferred insurance premiums	**155**	146	144
Allowance for claims on insurance	**515**	462	489
Total premium and claims liabilities	**670**	608	633
Reinsurers' share of allowance for claims on insurance	**(101)**	(71)	(71)
Prepaid reinsurance	**(29)**	(32)	(32)
Reinsurers' share of premium and claims liabilities	**(130)**	(103)	(103)
Net premium and claims liabilities	**$540**	$505	$530

6. Contingent Liabilities

As explained on page 113 of the 2017 Annual Report, we are subject to a limit imposed by the *Export Development Act* on our contingent liability arrangements. The limit is currently $45.0 billion. Our position against this limit is provided below:

(in millions of Canadian dollars)	**Mar 2018**	Dec 2017	Mar 2017
Insurance in force:			
Credit insurance	**9,808**	9,294	9,282
Financial institutions insurance	**3,240**	3,392	3,667
Contract insurance and bonding	**8,187**	8,297	8,126
Political risk insurance	**953**	915	1,287
Reinsurance ceded*	**(250)**	(250)	(250)
Insurance in force	**21,938**	21,648	22,112
Loan guarantees	**2,635**	2,616	2,532
Total	**$24,573**	$24,264	$24,644

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

7. 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). In the first quarter of 2018, a dividend of $969 million was paid to the Government of Canada (2017 – $786 million paid in the first quarter).

8. Fair Value of Financial Instruments

Fair value represents our estimation of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For a full description of our controls, policies and valuation techniques surrounding fair value of financial instruments refer to Note 26 on page 124 of the 2017 Annual Report.

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

(in millions of Canadian dollars)		**Mar 2018**		Dec 2017
	Carrying value	**Fair value**	Carrying value	Fair value
Assets				
Performing fixed rate loans*	**13,440**	**13,193**	12,303	12,461
Performing floating rate loans*	**38,270**	**38,843**	37,094	38,046
Total performing loans receivable	**51,710**	**52,036**	49,397	50,507
Impaired loans*	**389**	**389**	370	370
Loans receivable and accrued interest and fees	**52,099**	**52,425**	49,767	50,877
Marketable securities	**13,005**	**13,005**	8,057	8,057
Derivative instruments	**382**	**382**	315	315
Investments at fair value through profit or loss	**1,209**	**1,209**	1,124	1,124
Recoverable insurance claims	**70**	**70**	65	65
Other assets	**648**	**647**	138	136
Liabilities				
Accounts payable and other credits	**119**	**121**	123	125
Loans payable	**55,470**	**55,332**	47,114	47,021
Derivative instruments	**1,718**	**1,718**	1,690	1,690
Loan guarantees	**96**	**57**	192	154

* *Balances are net of loan allowance.*

Unobservable Inputs – Investments at Fair Value Through Profit or Loss

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 following table:

(in millions of Canadian dollars)

Valuation technique	**Unobservable input**	**Range (average)**	**Fair value at Mar 2018(1)**
Multiples	Multiple (Sales or EBITDA(2))	0.0 – 10.0 (7.2)	85
	Liquidity discount	0% – 55% (55%)	7
	Discount rate	16% – 35% (23%)	15
Discounted cash flows	Discount rate	0% – 10% (9%)	1

(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.*

Fair Value Hierarchy

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

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

(in millions of Canadian dollars)				**Mar 2018**				Dec 2017
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Assets								
Performing fixed rate loans	**-**	**12,829**	**364**	**13,193**	-	12,016	445	12,461
Performing floating rate loans	**-**	**38,666**	**177**	**38,843**	-	37,812	234	38,046
Total performing loans receivable	**-**	**51,495**	**541**	**52,036**	-	49,828	679	50,507
Impaired loans	**-**	**389**	**-**	**389**	-	370	-	370
Loans receivable and accrued interest and fees	**-**	**51,884**	**541**	**52,425**	-	50,198	679	50,877
Marketable securities	**6,321**	**6,684**	**-**	**13,005**	4,235	3,822	-	8,057
Derivative instruments	**-**	**353**	**29**	**382**	-	287	28	315
Investments at fair value through profit or loss	**1**	**-**	**1,208**	**1,209**	3	-	1,121	1,124
Recoverable insurance claims	**-**	**-**	**70**	**70**	-	-	65	65
Other assets	**613**	**34**	**-**	**647**	100	36	-	136
Liabilities								
Accounts payable and other credits	**86**	**35**	**-**	**121**	89	36	-	125
Loans payable	**-**	**55,238**	**94**	**55,332**	-	46,929	92	47,021
Derivative instruments	**-**	**1,718**	**-**	**1,718**	-	1,690	-	1,690
Loan guarantees	**-**	**57**	**-**	**57**	-	154	-	154

The following table summarizes the reconciliation of Level 3 fair values between the beginning of the year and the end of the first quarter of 2018 for the financial instruments carried at fair value:

(in millions of Canadian dollars)					**Mar 2018**
	Recoverable insurance claims	**Investments at fair value through profit or loss**	**Loans payable designated at fair value through profit or loss**	**Derivative instruments**	**Total**
Balance at beginning of year	**65**	**1,121**	**(92)**	**28**	**1,122**
Increase in recoverable insurance claims	**4**	**-**	**-**	**-**	**4**
Change in accrued interest	**-**	**-**	**(1)**	**1**	**-**
Unrealized gains (losses) included in other (income) expenses	**-**	**19**	**1**	**(1)**	**19**
Purchases of assets/issuances of liabilities	**-**	**91**	**-**	**-**	**91**
Return of capital	**-**	**(41)**	**-**	**-**	**(41)**
Foreign exchange translation	**1**	**18**	**(2)**	**1**	**18**
Balance at end of period	**$70**	**$1,208**	**$(94)**	**$29**	**$1,213**
Total gains (losses) for the first three months of 2018 included in comprehensive income for instruments held at the end of the quarter	**$70**	**$(32)**	**$(1)**	**$-**	**$37**

Changes in valuation methods may result in transfers into or out of Levels 1, 2 and 3. In the first three months of 2018, there were no transfers between levels.

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 input parameters are chosen so that they are consistent with prevailing market evidence or management judgment. For the quarter ended March 31, 2018, a sensitivity analysis was performed using possible alternative assumptions to recalculate the fair value of our Level 3 financial instruments.

In order to perform our sensitivity analysis on our Level 3 loans payable and derivative assets, we adjusted the yield curve and volatility assumptions used to value them. The results of our analysis on our Level 3 loans payable ranged from an unfavourable change of $0.08 million to a favourable change of $1.1 million. On our Level 3 derivative assets the impact ranged from an unfavourable change of $0.04 million to a favourable change of $0.02 million.

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 $52 million to a favourable change of $55 million.

9. Financial Instrument Risks

The principal risks that we are exposed to as a result of holding financial instruments are credit, market and liquidity risk. For a full description of our objectives, policies and processes for managing financial instrument risk refer to management's discussion and analysis on pages 66 to 70 and notes related to our derivative instruments and debt instruments on pages 108 to 110 of the 2017 Annual Report.

Credit Risk

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

Concentration of Credit Risk

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

(in millions of Canadian dollars)	**Mar 2018 Exposure**		Dec 2017 Exposure		Mar 2017 Exposure	
Country	**$**	**%**	$	%	$	%
United States	**20,290**	**29**	16,955	27	16,086	25
Canada	**8,252**	**12**	7,573	12	9,187	14
United Kingdom	**5,723**	**8**	5,492	9	4,353	7
India	**3,663**	**5**	3,587	6	2,447	4
Australia	**3,392**	**5**	3,009	5	3,618	6
Mexico	**2,878**	**4**	2,135	3	2,023	3
Chile	**2,406**	**3**	2,251	3	1,957	3
Brazil	**2,302**	**3**	2,206	3	3,263	5
Saudi Arabia	**2,054**	**3**	2,019	3	2,251	3
China	**1,690**	**2**	1,681	3	1,953	3
Other	**18,039**	**26**	16,560	26	17,878	27
Total	**$70,689**	**100**	$63,468	100	$65,016	100

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

(in millions of Canadian dollars)	**Mar 2018 Exposure**		Dec 2017 Exposure		Mar 2017 Exposure	
Industry	**$**	**%**	$	%	$	%
Commercial:						
Aerospace	**12,107**	**17**	12,123	19	12,961	20
Financial institutions	**9,163**	**13**	7,728	12	8,538	13
Oil and gas	**8,166**	**12**	7,527	12	8,788	14
Information and communication technologies	**7,033**	**10**	6,280	10	5,719	9
Mining	**6,608**	**9**	6,601	10	7,402	11
Surface transportation	**5,933**	**8**	5,671	9	6,087	9
Infrastructure and environment	**5,620**	**8**	5,216	8	5,238	8
Other	**4,423**	**7**	4,117	7	3,433	5
Total commercial	**59,053**	**84**	55,263	87	58,166	89
Sovereign	**11,636**	**16**	8,205	13	6,850	11
Total	**$70,689**	**100**	$63,468	100	$65,016	100

10. Loan Revenue

	Three months ended		
(in millions of Canadian dollars)	**Mar 2018**	Dec 2017	Mar 2017
Loan interest			
Floating rate	**332**	321	310
Fixed rate	**115**	112	111
Loan fee revenue	**47**	48	49
Impaired revenue	**4**	5	5
Total loan revenue	**$498**	$486	$475

11. Interest Expense

	Three months ended		
(in millions of Canadian dollars)	**Mar 2018**	Dec 2017	Mar 2017
Loans payable and related derivatives			
Short-term payables	**45**	44	28
Long-term payables – floating	**147**	111	93
Long-term payables – fixed*	**37**	43	31
Other	**-**	2	-
Total interest expense	**$229**	$200	$152

** Includes interest expense for debt classified at amortized cost of $32 million (December 2017 – $28 million and March 2017 – $27 million).*

12. Net Insurance Premiums and Guarantee Fees

The following tables present our net insurance premiums and guarantee fee revenue for our credit insurance (CI), financial institutions insurance (FII), contract insurance and bonding (CIB) and political risk insurance (PRI) product groups:

	Three months ended														
(in millions of Canadian dollars)					**Mar 2018**					Dec 2017					Mar 2017
	CI	**FII**	**CIB**	**PRI**	**Total**	CI	FII	CIB	PRI	Total	CI	FII	CIB	PRI	Total
Premiums earned	**28**	**4**	**22**	**6**	**60**	30	4	22	6	62	27	5	22	7	61
Reinsurance ceded	**(2)**	**-**	**(3)**	**(4)**	**(9)**	(3)	-	(5)	(3)	(11)	(2)	-	(5)	(4)	(11)
Net insurance premiums and guarantee fees	**$26**	**$4**	**$19**	**$2**	**$51**	$27	$4	$17	$3	$51	$25	$5	$17	$3	$50

13. Claims-Related Expenses

	Three months ended		
(in millions of Canadian dollars)	**Mar 2018**	Dec 2017	Mar 2017
Claims paid	**17**	97	19
Claims recovered	**(5)**	(9)	(4)
Claims recovered from reinsurers	**-**	(1)	-
Actuarial increase (decrease) in the net allowance for claims on insurance	**14**	(56)	12
(Increase) decrease in recoverable insurance claims	**(4)**	(23)	7
Claims handling expenses	**1**	-	1
Total claims-related expenses	**$23**	$8	$35

14. Other (Income) Expenses

	Three months ended		
(in millions of Canadian dollars)	**Mar 2018**	Dec 2017	Mar 2017
Net realized and unrealized (gain) loss on loans payable designated at fair value through profit or loss	**(104)**	(73)	41
Net realized and unrealized loss on derivatives	**15**	24	19
Net realized and unrealized (gain) loss on marketable securities at fair value through profit or loss	**55**	35	(7)
Net realized and unrealized (gain) loss on investments at fair value through profit or loss	**(32)**	(18)	1
Loss on sale of aircraft	**-**	11	-
Foreign exchange translation loss	**6**	2	7
Other	**-**	(1)	19
Total other (income) expenses	**$(60)**	$(20)	$80

Other (income) expense for the three months ended March 31, 2018 totalled $60 million, an increase of $40 million when compared to the previous quarter.

We use a variety of derivatives to manage our interest rate and foreign exchange risks. 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. We also hold derivatives related to our Canadian dollar capital and our loans receivable, which do not have corresponding fair value treatment.

For the three months ended March 31, 2018, we recorded net realized and unrealized gains of $34 million for our derivatives, loans payable and marketable securities compared to gains of $14 million in the previous quarter. The net realized and unrealized gains were higher mainly due to increases to the rates used to value our loans payable, partially offset by the increases in rates used to value our marketable securities and fluctuations from foreign exchange rates used to value our long-term currency swaps. Note that in accordance with International Financial Reporting Standards (IFRS), our loans payable are valued on the basis of our credit rating (AAA), while derivatives are valued based on the credit risk of the related exposure.

For the three months ended March 31, 2018, our investments portfolio experienced net realized gains of $13 million and net unrealized gains of $19 million mainly as a result of positive performance in our fund portfolio.

15. Administrative Expenses

	Three months ended		
(in millions of Canadian dollars)	**Mar 2018**	Dec 2017	Mar 2017
Salaries and benefits	**59**	50	56
Pension, other retirement and post-employment benefits	**12**	13	13
Professional services	**10**	11	6
Amortization and depreciation	**8**	8	6
Occupancy	**6**	6	7
Marketing and communications	**3**	9	3
Other	**18**	18	13
Total administrative expenses	**$116**	$115	$104

Retirement benefit obligations included in pension, other retirement and post-employment benefits above are as follows:

	Three months ended		
(in millions of Canadian dollars)	**Mar 2018**	Dec 2017	Mar 2017
Pension benefit expense	**9**	9	9
Other post-employment benefit and severance expense	**3**	4	4
Total	**$12**	$13	$13

16. Related Party Transactions

The Government of Canada is the sole shareholder of Export Development Canada. We enter into transactions with other government departments, agencies and Crown corporations and our Pension Plan in the normal course of business, under terms and conditions similar to those that apply to unrelated parties.

Mandate

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