Export Development Canada

Quarterly Financial Report
September 30, 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

Despite continued trade policy uncertainty, the economy continued to grow in the third quarter of 2018 and featured strong Canadian export numbers. High consumer confidence, stable demand for Canadian exports and a mild strengthening of the Canadian dollar are all indicators that the economy is running close to capacity.

The economic outlook for the United States remains robust with a tighter labour market and strong business confidence. The Federal Reserve raised its policy interest rate by 25 basis points in September, continuing a longer-term monetary policy normalization process. Emerging markets are continuing to experience capital outflows with notable currency depreciations in Turkey and Argentina. As well, amid Brexit concerns, the European Central Bank continued to hold its policy rate in the third quarter. Finally, after resolving supply shortages that started in June, oil prices levelled off at just over $70 per barrel in August as production output increased.

The successful conclusion of NAFTA renegotiations should reduce uncertainty for North American trade for the remainder of the year. However, forward-looking trade indicators, such as global export orders, have shown somewhat slower growth which reflects geo-political shifts and re-pricing of emerging market risk. As there is now greater clarity on North American trade rules, Canadian exporters are focusing on new markets as the demand for their products remain strong.

Business Facilitated

Financing business facilitated increased by 13% when compared to the same period in 2017 primarily due to increases in the infrastructure and environment sector and the oil and gas sector, partially offset by a decrease in the information and communication technologies sector.

Business facilitated within our financial institutions insurance product group declined by 48% due to a decrease in demand for the product by an existing policyholder.

Business facilitated within our contract insurance and bonding product group increased by 35% due to an increase in demand for the product within the infrastructure and environment sector.

	For the nine months ended	
(in millions of Canadian dollars)	**Sep 2018**	Sep 2017
Business Facilitated		
Direct lending	**17,400**	14,917
Project finance	**1,947**	2,081
Loan guarantees	**1,279**	1,104
Investments	**80**	153
Total financing and investments	**20,706**	18,255
Credit insurance	**43,663**	41,807
Financial institutions insurance	**3,435**	6,594
Contract insurance and bonding	**5,193**	3,855
Political risk insurance	**2,109**	1,775
Total insurance	**54,400**	54,031
Total business facilitated	**$75,106**	$72,286

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, consistent with our expectations. We did not restate the prior year 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 requirement as per IFRS 9 is provided in Note 1 of the Condensed Consolidated Financial Statements.

Financial Performance

	For the three months ended			For the nine months ended	
(in millions of Canadian dollars)	**Sep 2018**	Jun 2018	Sep 2017	**Sep 2018**	Sep 2017
Net financing and investment income	**300**	301	297	**906**	951
Net insurance premiums and guarantee fees[(1)]	**66**	60	60	**189**	181
Realized gains (losses)[(2)]	**(10)**	(9)	(7)	**(14)**	(14)
Net revenue	**356**	352	350	**1,081**	1,118
Administrative expenses	**121**	116	107	**353**	316
Provision for credit losses[(3)]	**99**	33	1	**100**	62
Claims-related expenses	**139**	17	78	**179**	149
Income (loss) before unrealized (gains) losses	**(3)**	186	164	**449**	591
Unrealized (gains) losses on financial instruments[(2)]	**(81)**	(21)	11	**(157)**	40
Net income	**$78**	$207	$153	**$606**	$551

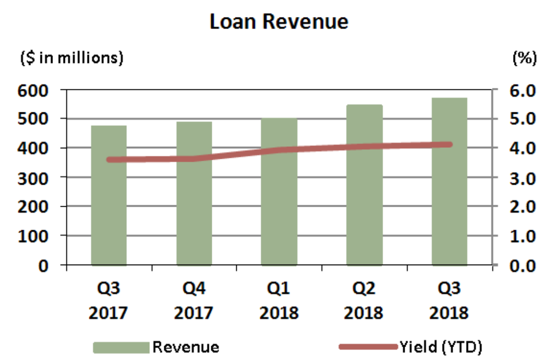
[(1)] Includes loan guarantee fees.

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

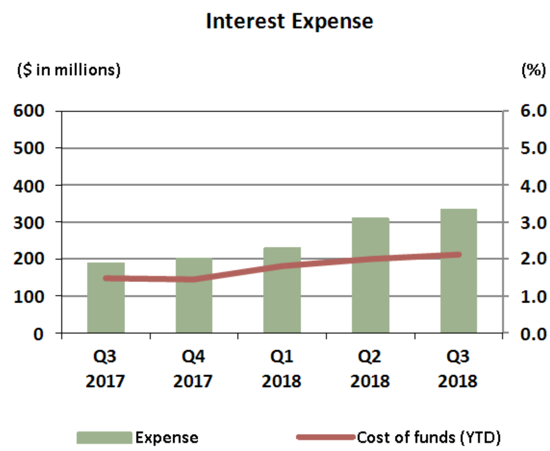
[(3)] The current year amounts have been prepared in accordance with IFRS 9. Prior year amounts have not been restated and are reported in accordance with IAS 39.

We experienced fluctuations in our net income between periods largely caused by changes in claims-related expenses, 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 have increased 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 nine months of 2018 mainly as a result of the increase in U.S. interest rates. Interest expense increased at a greater pace than loan revenue as we increased borrowings to finance the growth in our marketable securities (refer to page 9). The majority of our funding is at floating rates and denominated in U.S. dollars, consistent with our loan assets.

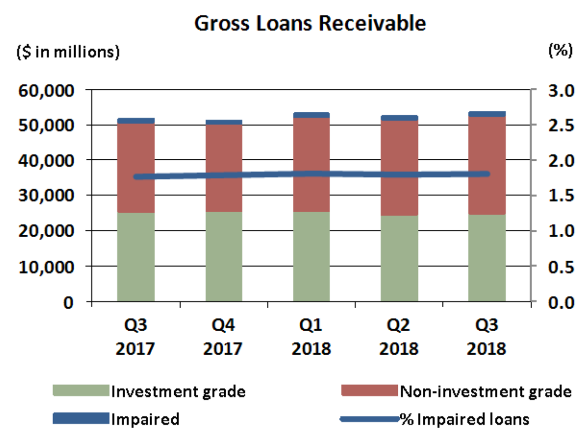


Financial Position

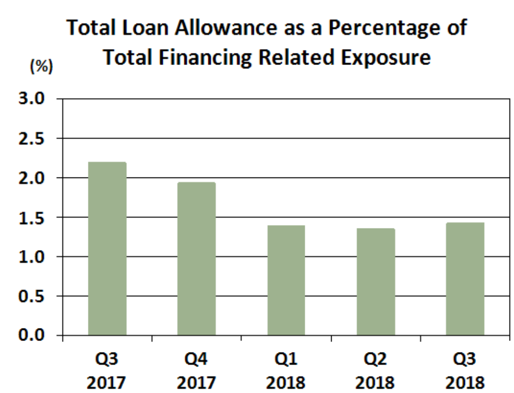
As at *(in millions of Canadian dollars)*	**Sep 2018**	Jun 2018	Dec 2017	Sep 2017
Total assets	**70,717**	69,028	60,120	59,487
Total liabilities	**60,570**	59,019	50,080	49,927
Equity	**10,147**	10,009	10,040	9,560
Gross loans receivable	**53,567**	52,420	51,199	51,606
Total allowances*	**1,670**	1,530	1,903	2,124

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

Gross loans receivable has increased during the first nine months of the year primarily due to net disbursements and foreign exchange translation. The increase in non-investment grade exposures in 2018 is primarily due to downward credit migration in the information and communication technologies and aerospace sectors and net disbursements to non-investment grade obligors during the first nine months of the year.



Total loan allowance as a percentage of total financing related exposure decreased in the first quarter of 2018 when compared to the fourth quarter of 2017 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. During the third quarter of 2018, the Canadian dollar strengthened against the U.S. dollar and the impact was a decrease 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 position as at September 30, 2018 had the Canadian dollar remained stable relative to the U.S. dollar:

	Q3-2018		
(in millions of Canadian dollars)	vs Q2-2018	vs Q4-2017	vs Q3-2017
USD equivalent of CAD 1.00 (closing rate)			
Current period	0.774	0.774	0.774
Prior periods	0.761	0.795	0.801
Financial Position			
Increase (decrease) in loans receivable	703	(1,058)	(1,349)
Increase (decrease) in loans payable	956	(1,439)	(1,835)

The Canadian dollar average exchange rate for the third quarter of 2018 weakened slightly against the U.S. dollar when compared to the prior quarter. This had a favourable impact on our financial results, as the components of net income as well as our business facilitated are translated at the average exchange rates. The following table reflects the estimated impact on our financial performance as at September 30, 2018 had the Canadian dollar remained stable relative to the U.S. dollar:

	Q3-2018		YTD-2018
(in millions of Canadian dollars)	vs Q2-2018	vs Q3-2017	vs YTD-2017
USD equivalent of CAD 1.00 (average rate)			
Current period	0.765	0.765	0.777
Prior periods	0.775	0.798	0.765
Financial Performance			
Increase (decrease) in net income	(2)	(6)	9
Increase (decrease) in business facilitated	(220)	(768)	775

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.

THIRD QUARTER HIGHLIGHTS

Net income declined by $129 million when compared to the previous quarter primarily due to higher loan provisioning requirements and an increase in claims-related expenses partially offset by fluctuations in the fair value of our financial instruments.

We recorded a **provision charge** of $99 million in the third quarter of 2018 compared to $33 million in the previous quarter. The provision charge in the third quarter is mainly due to the impairment of an obligor in the infrastructure and environment industry, as well as increased credit risk related to obligors in Turkey.

	Three months ended	
(in millions of Canadian dollars)	**Sep 2018**	Jun 2018
Income before provisions, claims-related expenses and unrealized (gains) losses	**235**	236
Provision for credit losses	**99**	33
Claims-related expenses	**139**	17
Unrealized (gains) losses on financial instruments*	**(81)**	(21)
Net income	**$78**	$207

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

We experienced $139 million in **claims-related expenses** in the third quarter compared to $17 million in the second quarter mainly due to an increase in the net allowance for claims on insurance as a result of heightened risk in our insurance programs.

FINANCIAL RESULTS – YEAR TO DATE

Prior Year Comparison

Net income for the first nine months of 2018 was $606 million, an increase of $55 million when compared to the same period in 2017. We experienced an increase in other income, which was partially offset by a decrease in our net financing and investment income, an increase in provisioning requirements and an increase in administrative expenses.

Other income for the first nine months of 2018 was $197 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, as well as unrealized fair value gains as a result of strong performance in our investments portfolio.

Net financing and investment income was $906 million for the first nine months of 2018, a decrease of $45 million from the prior year period primarily due to an increase in interest rates in our short-term loans payable portfolio.

Provision for credit losses was $100 million for the first nine months of 2018, an increase of $38 million from the prior year period. The increased provision charge is due to the impairment of an obligor in the infrastructure and environment sector, as well as increased credit risk within our loan portfolio related to obligors in Turkey.

Administrative expenses were $37 million higher in the first nine months of 2018 when compared to the same period in 2017 mainly due to an increase in professional services relating to the foundational investments in our technology and digital platforms as well as compliance related initiatives such as the build-out of our enterprise risk management framework.

Corporate Plan Comparison

Financial Performance

	Nine months ended		Year ended
	Sep 2018	Sep 2018	Dec 2018
(in millions of Canadian dollars)	**Actual Results**	Corporate Plan	Corporate Plan
Net financing and investment income	**906**	970	1,295
Net insurance premiums and guarantee fees*	**189**	184	252
Other (income) expenses	**(143)**	(1)	(2)
Administrative expenses	**353**	373	527
Provision for credit losses	**100**	8	11
Claims-related expenses	**179**	68	91
Net income	**606**	706	920
Other comprehensive income	**70**	66	89
Comprehensive income	**$676**	$772	$1,009

**Includes loan guarantee fees.*

Net income for the first nine months of 2018 was $100 million lower than the Corporate Plan primarily due to a decrease in net financing and investment income and an increase in provisioning requirements and claims-related expenses, partially offset by an increase in other income.

Net financing and investment income for the first nine months of 2018 was $64 million lower than Corporate Plan primarily due to foreign exchange translation as a result of the strengthening of the Canadian dollar relative to the U.S. dollar.

Provision for credit losses is $92 million higher than the Corporate Plan primarily due to the impairment of an obligor in the infrastructure and environment sector, as well as increased credit risk within our loan portfolio related to obligors in Turkey.

Claims-related expenses is higher than the Corporate Plan by $111 million. In 2018, we increased our allowance for insurance claims mainly due to heightened risk in our insurance program.

Other income was $142 million higher than the Corporate Plan for the first nine months of 2018. The variance is largely due to the volatility associated with our financial instruments carried at fair value through profit or loss, as well as unrealized fair value gains as a result of strong performance in our investments portfolio. 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.

Financial Position

As at *(in millions of Canadian dollars)*	**Sep 2018 Actual Results**	Sep 2018 Corporate Plan	Dec 2018 Corporate Plan
Cash and marketable securities	**15,524**	11,810	10,664
Derivative instruments	**390**	280	280
Loans receivable	**53,557**	53,073	54,687
Allowance for losses on loans receivable	**(1,000)**	(1,233)	(1,201)
Investments at fair value through profit or loss	**1,311**	1,205	1,236
Other assets	**935**	803	823
Total Assets	**$70,717**	$65,938	$66,489
Loans payable	**57,333**	52,388	52,794
Derivative instruments	**1,805**	2,107	2,107
Allowance for losses on loan commitments	**30**	25	25
Premium and claims liabilities	**800**	669	579
Other liabilities	**602**	645	644
Equity	**10,147**	10,104	10,340
Total Liabilities and Equity	**$70,717**	$65,938	$66,489

Cash and marketable securities totalled $15.5 billion at September 30, 2018, $3.7 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 in October.

Loans payable totalled $57.3 billion at September 30, 2018, $4.9 billion higher than Corporate Plan mainly due to the funding required for the increase in our marketable securities portfolio, partially offset by 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 premium earned. 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 $14 million (2017 – $87 million) and an increase in actuarial liabilities of $33 million (2017 – $62 million increase). The higher claims ratio in 2017 was mainly due to the payment of large insolvency claims and heightened risk in the retail sector.

	Nine months ended	
(in millions of Canadian dollars)	**Sep 2018**	Sep 2017
Premiums earned	**84**	80
Reinsurance ceded	**(6)**	(4)
Net premium earned	**$78**	$76
Net claims incurred	**$47**	$149
Claims ratio	**60%**	196%

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 September 30, 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
November 22, 2018

Export Development Canada
Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at

0*(in millions of Canadian dollars)*

	Notes	**Sep 2018**	Jun 2018	Dec 2017	Sep 2017
Assets					
Cash		**451**	172	157	111
Marketable securities		**15,073**	14,827	8,057	7,163
Derivative instruments	4	**390**	490	315	301
Assets held-for-sale		**23**	23	34	44
Loans receivable	2	**53,557**	52,367	51,127	51,564
Allowance for losses on loans receivable	2	**(1,000)**	(1,010)	(1,363)	(1,489)
Investments at fair value through profit or loss		**1,311**	1,286	1,124	1,079
Net investment in aircraft under finance leases		**5**	5	-	-
Recoverable insurance claims	3	**55**	59	65	42
Reinsurers' share of premium and claims liabilities	5	**140**	150	103	161
Other assets		**293**	291	138	127
Retirement benefit assets		**131**	78	69	91
Property, plant and equipment		**51**	51	54	55
Intangible assets		**109**	109	106	103
Building under finance lease		**128**	130	134	135
Total Assets		**$70,717**	$69,028	$60,120	$59,487
Liabilities and Equity					
Accounts payable and other credits		**120**	116	123	105
Loans payable		**57,333**	55,850	47,114	46,932
Derivative instruments	4	**1,805**	1,866	1,690	1,527
Obligation under finance lease		**151**	152	154	155
Retirement benefit obligations		**183**	187	185	258
Allowance for losses on loan commitments	2	**30**	20	14	68
Premium and claims liabilities	5	**800**	700	608	702
Loan guarantees	2	**148**	128	192	180
Total Liabilities		**60,570**	59,019	50,080	49,927
Financing commitments (Note 2) and contingent liabilities (Note 6)					
Equity					
Share capital	7	**1,333**	1,333	1,333	1,333
Retained earnings		**8,814**	8,676	8,707	8,227
Total Equity		**10,147**	10,009	10,040	9,560
Total Liabilities and Equity		**$70,717**	$69,028	$60,120	$59,487

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 November 22, 2018.

Robert S. McLeese
Director

Benoit Daignault
Director

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

		For the three months ended			For the nine months ended	
	Notes	**Sep 2018**	Jun 2018	Sep 2017	**Sep 2018**	Sep 2017
Financing and Investment Revenue:						
Loan	10	**569**	544	472	**1,611**	1,429
Marketable securities		**70**	72	22	**184**	65
Investments		**2**	2	2	**6**	7
Total financing and investment revenue		**641**	618	496	**1,801**	1,501
Interest expense	11	**332**	309	188	**870**	515
Financing related expenses		**9**	8	11	**25**	35
Net Financing and Investment Income		**300**	301	297	**906**	951
Loan Guarantee Fees		**12**	11	11	**35**	32
Insurance premiums and guarantee fees		**63**	59	58	**182**	177
Reinsurance ceded		**(9)**	(10)	(9)	**(28)**	(28)
Net Insurance Premiums and Guarantee Fees	12	**54**	49	49	**154**	149
Other (Income) Expenses	14	**(71)**	(12)	18	**(143)**	54
Administrative Expenses	15	**121**	116	107	**353**	316
Income before Provision and Claims-Related Expenses		**316**	257	232	**885**	762
Provision for Credit Losses	2	**99**	33	1	**100**	62
Claims-Related Expenses	13	**139**	17	78	**179**	149
Net Income		**78**	207	153	**606**	551
Other comprehensive income:						
Retirement benefit plans remeasurement		**60**	29	48	**70**	32
Comprehensive Income		**$138**	$236	$201	**$676**	$583

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in millions of Canadian dollars)

		For the three months ended			For the nine months ended	
	Notes	**Sep 2018**	Jun 2018	Sep 2017	**Sep 2018**	Sep 2017
Share Capital	7	**1,333**	1,333	1,333	**1,333**	1,333
Retained Earnings						
Balance beginning of period		**8,676**	8,440	8,026	**8,707**	8,430
IFRS 9 impairment transition adjustment	1	**-**	-	-	**400**	-
Revised balance at beginning of period		**8,676**	8,440	8,026	**9,107**	8,430
Net income		**78**	207	153	**606**	551
Other comprehensive income						
Retirement benefit plans remeasurement		**60**	29	48	**70**	32
Dividend paid	7	**-**	-	-	**(969)**	(786)
Balance end of period		**8,814**	8,676	8,227	**8,814**	8,227
Total Equity at End of Period		**$10,147**	$10,009	$9,560	**$10,147**	$9,560

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

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

	For the three months ended			For the nine months ended	
	Sep 2018	Jun 2018	Sep 2017	**Sep 2018**	Sep 2017
Cash Flows from (used in) Operating Activities					
Net income	**78**	207	153	**606**	551
Adjustments to determine net cash flows from (used in) operating activities					
Provision for credit losses	**99**	33	1	**100**	62
Actuarial change in the net allowance for claims on insurance	**120**	14	34	**148**	59
Depreciation and amortization	**11**	9	9	**30**	26
Realized (gains) and losses	**9**	2	(3)	**1**	(16)
Changes in operating assets and liabilities					
Change in accrued interest and fees on loans receivable	**(52)**	(21)	(65)	**(120)**	(68)
Change in accrued interest and fair value of marketable securities	**32**	10	6	**103**	4
Change in accrued interest and fair value of loans payable	**(18)**	(7)	(2)	**(74)**	42
Change in derivative instruments	**36**	60	(168)	**(73)**	(417)
Other	**(6)**	5	(37)	**(68)**	36
Loan disbursements	**(8,872)**	(8,889)	(5,702)	**(25,556)**	(18,719)
Loan repayments and principal recoveries from loan asset sales	**6,756**	9,960	6,180	**23,982**	19,336
Net cash from (used in) operating activities	**(1,807)**	1,383	406	**(921)**	896
Cash Flows from (used in) Investing Activities					
Disbursements for investments	**(56)**	(67)	(59)	**(207)**	(203)
Receipts from investments	**29**	59	49	**137**	97
Purchases of marketable securities	**(3,268)**	(4,007)	(1,793)	**(12,020)**	(4,836)
Sales/maturities of marketable securities	**4,071**	3,373	1,635	**8,902**	4,718
Purchases of property, plant and equipment	**(2)**	(1)	-	**(4)**	-
Purchases of intangible assets	**(6)**	(9)	-	**(21)**	-
Net cash from (used in) investing activities	**768**	(652)	(168)	**(3,213)**	(224)
Cash Flows from (used in) Financing Activities					
Issue of long-term loans payable	**1,367**	4,063	1,171	**11,390**	9,380
Repayment of long-term loans payable	**(1,632)**	(3,131)	(1,884)	**(7,783)**	(7,537)
Issue of short-term loans payable	**9,293**	6,402	8,470	**26,821**	20,323
Repayment of short-term loans payable	**(6,324)**	(6,989)	(7,078)	**(20,927)**	(21,556)
Disbursements from sale/maturity of derivative instruments	**(32)**	(196)	(240)	**(318)**	(349)
Receipts from sale/maturity of derivative instruments	**(4)**	9	92	**5**	92
Dividend paid	**-**	-	-	**(969)**	(786)
Net cash from (used in) financing activities	**2,668**	158	531	**8,219**	(433)
Effect of exchange rate changes on cash and cash equivalents	**(52)**	37	(62)	**31**	(73)
Net increase in cash and cash equivalents	**1,577**	926	707	**4,116**	166
Cash and cash equivalents					
Beginning of period	**4,166**	3,240	1,350	**1,627**	1,891
End of period	**$5,743**	$4,166	$2,057	**$5,743**	$2,057
Cash and cash equivalents are comprised of:					
Cash	**451**	172	111	**451**	111
Cash equivalents included within marketable securities	**5,292**	3,994	1,946	**5,292**	1,946
	$5,743	$4,166	$2,057	**$5,743**	$2,057
Operating Cash Flows from Interest					
Cash paid for interest	**$320**	$226	$166	**$738**	$452
Cash received for interest	**$555**	$568	$396	**$1,559**	$1,318

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 during the year

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

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 year 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)	**Sep 2018**	Jun 2018	Dec 2017	Sep 2017
Performing:				
Past due*	**50**	86	99	123
Current year and beyond	**52,550**	51,393	50,185	50,572
Performing gross loans receivable	**52,600**	51,479	50,284	50,695
Individually impaired loans	**967**	941	915	911
Gross loans receivable	**53,567**	52,420	51,199	51,606
Accrued interest and fees receivable	**289**	252	241	254
Deferred loan revenue and other credits	**(299)**	(305)	(313)	(296)
Total loans receivable	**$53,557**	$52,367	$51,127	$51,564

* *The majority of past due receivables were less than 30 days past due and payments were received in the first week following the quarter.*

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	**25,556**	18,719
Principal repayments	**(23,970)**	(18,837)
Loans written off	**(114)**	(41)
Principal recoveries from loan asset sales	**(12)**	(499)
Capitalized interest	**6**	3
Transferred to held-for-sale	**-**	(5)
Foreign exchange translation	**902**	(3,109)
Balance at September 30	**$53,567**	$51,606

Individually Impaired Loans Receivable

(in millions of Canadian dollars)	**Sep 2018**	Jun 2018	Dec 2017	Sep 2017
Gross loans receivable				
Sovereign	**9**	9	9	8
Commercial	**958**	932	906	903
	967	941	915	911
Less: Deferred loan revenue and other credits	**28**	24	17	13
Individual allowance	**516**	527	528	504
Carrying amount of individually impaired loans	**$423**	$390	$370	$394

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	**163**	69
Disbursements	**35**	7
Capitalized interest	**3**	-
Loans written off	**(114)**	(17)
Principal repayments	**(38)**	(15)
Principal recoveries from loan asset sales	**(12)**	-
Loans reinstated to performing*	**(7)**	(100)
Transfer to assets held-for-sale	**-**	(5)
Foreign exchange translation	**22**	(65)
Balance at September 30	**$967**	$911

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

Financing Commitments

The following table shows our outstanding financing commitments related to loans receivable by type:

(in millions of Canadian dollars)	**Sep 2018**	Jun 2018	Dec 2017	Sep 2017
Signed loan commitments	**19,452**	20,202	20,784	19,839
Letters of offer	**3,029**	6,249	3,756	2,620
Unallocated confirmed lines of credit	**83**	123	112	100
Total financing commitments	**$22,564**	$26,574	$24,652	$22,559

Allowance for Losses

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

			Sep 2018			Jun 2018			Dec 2017[1]			Sep 2017[1]
(in millions of Canadian dollars)	**Gross carrying amount**	**Allowance for losses [2]**	**Net carrying amount**	Gross carrying amount	Allowance for losses [2]	Net carrying amount	Gross carrying amount	Allowance for losses [2]	Net carrying amount	Gross carrying amount	Allowance for losses [2]	Net carrying amount
Loans receivable	**53,567**	**1,000**	**52,567**	52,420	1,010	51,410	51,199	1,363	49,836	51,606	1,489	50,117
Loan commitments	**19,452**	**30**	**19,422**	20,202	20	20,182	20,784	14	20,770	19,839	68	19,771
Loan guarantees	**2,907**	**90**	**2,817**	2,761	70	2,691	2,616	135	2,481	2,536	123	2,413
Total	**$75,926**	**$1,120**	**$74,806**	$75,383	$1,100	$74,283	$74,599	$1,512	$73,087	$73,981	$1,680	$72,301

[1] *Prior period amounts have not been restated and are reported in accordance with IAS 39.*
[2] *Includes allowance on other receivables of $3 million (June 2018 - $4 million, December 2017 - $4 million, and September 2017 - $4 million).*

The following tables reconcile the opening and closing allowance for losses on loans receivable, loan commitments and loan guarantees for the quarter ended September 30, 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;
- 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;
- Write-off of assets deemed uncollectible; and
- Effect of changes in foreign exchange rates.

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

				Three months ended Sep 30 2018				Three months ended Jun 30 2018				**Nine months ended Sep 30 2018**
(in millions of Canadian dollars)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans receivable												
Balance at beginning of period	**134**	**349**	**527**	**1,010**	119	363	558	1,040	**113**	**388**	**523**	**1,024**
Provision for (reversal of) credit losses												
Transfer to stage 1	**32**	**(32)**	**-**	**-**	24	(24)	-	-	**80**	**(76)**	**(4)**	**-**
Transfer to stage 2	**(23)**	**23**	**-**	**-**	(14)	14	-	-	**(40)**	**40**	**-**	**-**
Transfer to stage 3	**-**	**(2)**	**2**	**-**	-	(2)	2	-	**-**	**(5)**	**5**	**-**
Remeasurements	**(18)**	**24**	**54**	**60**	(20)	-	11	(9)	**(60)**	**13**	**82**	**35**
New originations	**18**	**15**	**2**	**35**	27	4	3	34	**62**	**21**	**16**	**99**
Net repayments and maturities	**(18)**	**(9)**	**-**	**(27)**	(3)	(8)	(1)	(12)	**(34)**	**(28)**	**(3)**	**(65)**
Total provision for (reversal of) credit losses	**(9)**	**19**	**58**	**68**	14	(16)	15	13	**8**	**(35)**	**96**	**69**
Write-offs	**-**	**-**	**(60)**	**(60)**	-	-	(56)	(56)	**-**	**-**	**(116)**	**(116)**
Foreign exchange translation	**(2)**	**(7)**	**(9)**	**(18)**	1	2	10	13	**2**	**8**	**13**	**23**
Balance at end of period	**123**	**361**	**516**	**1,000**	134	349	527	1,010	**123**	**361**	**516**	**1,000**
Loan commitments												
Balance at beginning of period	**2**	**17**	**1**	**20**	4	25	1	30	**4**	**5**	**-**	**9**
Provision for (reversal of) credit losses												
Transfer to stage 1	**-**	**-**	**-**	**-**	2	(2)	-	-	**2**	**(2)**	**-**	**-**
Transfer to stage 2	**(1)**	**1**	**-**	**-**	(1)	1	-	-	**(3)**	**3**	**-**	**-**
Remeasurements	**(1)**	**5**	**-**	**4**	(4)	(7)	-	(11)	**(4)**	**17**	**1**	**14**
New originations	**7**	**-**	**-**	**7**	1	-	-	1	**8**	**-**	**-**	**8**
Net repayments and maturities	**-**	**-**	**(1)**	**(1)**	-	-	-	-	**-**	**-**	**(1)**	**(1)**
Total provision for (reversal of) credit losses	**5**	**6**	**(1)**	**10**	(2)	(8)	-	(10)	**3**	**18**	**-**	**21**
Balance at end of period	**7**	**23**	**-**	**30**	2	17	1	20	**7**	**23**	**-**	**30**
Loan guarantees												
Balance at beginning of period	**11**	**30**	**29**	**70**	9	6	25	40	**16**	**9**	**54**	**79**
Provision for (reversal of) credit losses												
Transfer to stage 1	**2**	**(2)**	**-**	**-**	3	(3)	-	-	**7**	**(7)**	**-**	**-**
Transfer to stage 2	**(3)**	**3**	**-**	**-**	(5)	5	-	-	**(8)**	**8**	**-**	**-**
Transfer to stage 3	**-**	**-**	**-**	**-**	-	(1)	1	-	**-**	**(1)**	**1**	**-**
Remeasurements	**(7)**	**9**	**12**	**14**	(7)	36	5	34	**(27)**	**44**	**21**	**38**
New originations	**12**	**-**	**2**	**14**	12	-	-	12	**28**	**-**	**2**	**30**
Net repayments and maturities	**(2)**	**-**	**(5)**	**(7)**	(1)	(13)	(2)	(16)	**(3)**	**(14)**	**(41)**	**(58)**
Total provision for (reversal of) credit losses	**2**	**10**	**9**	**21**	2	24	4	30	**(3)**	**30**	**(17)**	**10**
Foreign exchange translation	**-**	**(1)**	**-**	**(1)**	-	-	-	-	**-**	**-**	**1**	**1**
Balance at end of period	**13**	**39**	**38**	**90**	11	30	29	70	**13**	**39**	**38**	**90**
Total allowance for losses on loans receivable, loan commitments and loan guarantees	**$143**	**$423**	**$554**	**$1,120**	$147	$396	$557	$1,100	**$143**	**$423**	**$554**	**$1,120**

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

					2017[3]
(in millions of Canadian dollars)	Balance at Jan 1	Provision for (reversal of) credit losses	Write-offs	Foreign exchange translation	Balance at September 30
Loans receivable[1]	1,552	48	(16)	(95)	1,489
Loan commitments	78	(6)	-	(4)	68
Loan guarantees[2]	105	20	-	(2)	123
Total	$1,735	$62	$(16)	$(101)	$1,680

[1] *Includes allowance on other receivables of $4 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 credit losses for the prior periods:

(in millions of Canadian dollars)	Three months ended Sep 2017	Nine months ended Sep 2017
Credit migration	16	76
Changes in portfolio composition*	(15)	(8)
Increased concentration threshold	-	(6)
Provision for credit losses	$1	$62

* *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.*

Exposure by Credit Grade

	Non-credit-impaired		Credit-impaired	**Sep 2018**		Jun 2018		Dec 2017		Sep 2017	
(in millions of Canadian dollars)	**Stage 1**	**Stage 2**	**Stage 3**	**$**	**% of total**	$	% of total	$	% of total	$	% of total
Gross loans receivable											
Investment grade*	**23,068**	**1,835**	**-**	**24,903**	**46%**	24,555	47%	25,642	50%	25,362	49%
Non-investment grade	**15,609**	**12,088**	**-**	**27,697**	**52%**	26,924	51%	24,642	48%	25,333	49%
Individually impaired	**-**	**-**	**967**	**967**	**2%**	941	2%	915	2%	911	2%
Total gross loans receivable	**$38,677**	**$13,923**	**$967**	**$53,567**	**100%**	$52,420	100%	$51,199	100%	$51,606	100%
Loan commitments											
Investment grade*	**11,203**	**1,115**	**-**	**12,318**	**63%**	13,126	65%	13,892	67%	13,583	68%
Non-investment grade	**4,182**	**2,943**	**-**	**7,125**	**37%**	7,049	35%	6,892	33%	6,256	32%
Individually impaired	**-**	**-**	**9**	**9**	**-%**	27	-%	-	-%	-	-%
Total loan commitments	**$15,385**	**$4,058**	**$9**	**$19,452**	**100%**	$20,202	100%	$20,784	100%	$19,839	100%
Loan guarantees											
Investment grade*	**327**	**360**	**-**	**687**	**24%**	719	26%	712	27%	726	29%
Non-investment grade	**1,696**	**473**	**-**	**2,169**	**74%**	2,001	73%	1,832	70%	1,753	69%
Individually impaired	**-**	**-**	**51**	**51**	**2%**	41	1%	72	3%	57	2%
Total loan guarantees	**$2,023**	**$833**	**$51**	**$2,907**	**100%**	$2,761	100%	$2,616	100%	$2,536	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	**52**	104
Claims recovered	**(33)**	(32)
Claims recovered from reinsurers	**(2)**	(2)
Change in recoverable portion of cumulative claims paid	**(28)**	(88)
Foreign exchange translation	**1**	(3)
Balance at September 30	**$55**	$42

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)			**Sep 2018**			Dec 2017			Sep 2017
	Positive	**Negative**	**Total**	Positive	Negative	Total	Positive	Negative	Total
Cross currency interest rate swaps	**87**	**1,336**	**(1,249)**	167	1,329	(1,162)	159	1,273	(1,114)
Interest rate swaps	**279**	**396**	**(117)**	95	267	(172)	84	193	(109)
Foreign exchange swaps	**24**	**73**	**(49)**	53	91	(38)	58	61	(3)
Foreign exchange forwards	**-**	**-**	**-**	-	3	(3)	-	-	-
Total derivative instruments	**390**	**1,805**	**(1,415)**	315	1,690	(1,375)	301	1,527	(1,226)
Impact of netting agreements	**(387)**	**(387)**	**-**	(263)	(263)	-	(252)	(252)	-
Total	**$3**	**$1,418**	**$(1,415)**	$52	$1,427	$(1,375)	$49	$1,275	$(1,226)
Applicable collateral			**-**			(24)			(22)
Net amount			**$(1,415)**			$(1,399)			$(1,248)

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)				**Sep 2018**				Jun 2018				Dec 2017				Sep 2017
	CI*	**CIB**	**PRI**	**Total**	CI*	CIB	PRI	Total	CI*	CIB	PRI	Total	CI*	CIB	PRI	Total
Insurance	**320**	**50**	**430**	**800**	300	40	360	700	274	45	289	608	362	35	305	702
Reinsurance	**(10)**	**-**	**(130)**	**(140)**	(20)	-	(130)	(150)	(13)	(1)	(89)	(103)	(54)	1	(108)	(161)
Net liability	**$310**	**$50**	**$300**	**$660**	$280	$40	$230	$550	$261	$44	$200	$505	$308	$36	$197	$541

* *Includes financial institutions insurance.*

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

(in millions of Canadian dollars)	**Sep 2018**	Jun 2018	Dec 2017	Sep 2017
Deferred insurance premiums	**150**	160	146	129
Allowance for claims on insurance	**650**	540	462	573
Total premium and claims liabilities	**800**	700	608	702
Reinsurers' share of allowance for claims on insurance	**(100)**	(110)	(71)	(129)
Prepaid reinsurance	**(40)**	(40)	(32)	(32)
Reinsurers' share of premium and claims liabilities	**(140)**	(150)	(103)	(161)
Net premium and claims liabilities	**$660**	$550	$505	$541

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)	**Sep 2018**	Jun 2018	Dec 2017	Sep 2017
Insurance in force:				
Credit insurance	**11,191**	10,422	9,294	9,120
Financial institutions insurance	**2,447**	2,655	3,392	2,892
Contract insurance and bonding	**9,361**	8,667	8,297	7,913
Political risk insurance	**866**	892	915	886
Reinsurance ceded*	**(250)**	(250)	(250)	(250)
Insurance in force	**23,615**	22,386	21,648	20,561
Loan guarantees	**2,907**	2,761	2,616	2,536
Total	**$26,522**	$25,147	$24,264	$23,097

* *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).

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)		**Sep 2018**		Jun 2018
	Carrying value	**Fair value**	Carrying value	Fair value
Assets				
Performing fixed rate loans*	**13,518**	**12,991**	13,200	12,709
Performing floating rate loans*	**38,620**	**39,030**	37,771	38,155
Total performing loans receivable	**52,138**	**52,021**	50,971	50,864
Impaired loans*	**423**	**423**	390	390
Loans receivable and accrued interest and fees	**52,561**	**52,444**	51,361	51,254
Marketable securities	**15,073**	**15,073**	14,827	14,827
Derivative instruments	**390**	**390**	490	490
Investments at fair value through profit or loss	**1,311**	**1,311**	1,286	1,286
Recoverable insurance claims	**55**	**55**	59	59
Other assets	**293**	**291**	291	290
Liabilities				
Accounts payable and other credits	**120**	**121**	116	118
Loans payable	**57,333**	**57,186**	55,850	55,703
Derivative instruments	**1,805**	**1,805**	1,866	1,866
Loan guarantees	**148**	**111**	128	94

* *Balances are net of loan allowance, deferred revenue and other adjustments.*

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 Sep 2018(1)**
Multiples	Multiple (Sales or EBITDA(2))	0.0 – 10.1 (6.9)	110
	Liquidity discount	0% – 50% (50%)	7
	Discount rate	10% – 35% (19%)	28
Discounted cash flows	Discount rate	0% – 15% (12%)	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.*

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)				**Sep 2018**				Jun 2018
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Assets								
Performing fixed rate loans	**-**	**12,968**	**23**	**12,991**	-	12,370	339	12,709
Performing floating rate loans	**-**	**38,835**	**195**	**39,030**	-	37,947	208	38,155
Total performing loans receivable	**-**	**51,803**	**218**	**52,021**	-	50,317	547	50,864
Impaired loans	**-**	**423**	**-**	**423**	-	390	-	390
Loans receivable and accrued interest and fees	**-**	**52,226**	**218**	**52,444**	-	50,707	547	51,254
Marketable securities	**6,542**	**8,531**	**-**	**15,073**	6,458	8,369	-	14,827
Derivative instruments	**-**	**390**	**-**	**390**	-	490	-	490
Investments at fair value through profit or loss	**1**	**-**	**1,310**	**1,311**	1	-	1,285	1,286
Recoverable insurance claims	**-**	**-**	**55**	**55**	-	-	59	59
Other assets	**261**	**30**	**-**	**291**	258	32	-	290
Liabilities								
Accounts payable and other credits	**90**	**31**	**-**	**121**	84	34	-	118
Loans payable	**-**	**57,186**	**-**	**57,186**	-	55,703	-	55,703
Derivative instruments	**-**	**1,805**	**-**	**1,805**	-	1,866	-	1,866
Loan guarantees	**-**	**111**	**-**	**111**	-	94	-	94

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

(in millions of Canadian dollars)					**Sep 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**
Decrease in recoverable insurance claims	**(11)**	**-**	**-**	**-**	**(11)**
Change in accrued interest	**-**	**-**	**25**	**(24)**	**1**
Unrealized gains (losses) included in other (income) expenses	**-**	**83**	**5**	**(4)**	**84**
Purchases of assets/issuances of liabilities	**-**	**231**	**-**	**-**	**231**
Matured assets/liabilities	**-**	**-**	**65**	**-**	**65**
Return of capital	**-**	**(144)**	**-**	**-**	**(144)**
Foreign exchange translation	**1**	**19**	**(3)**	**-**	**17**
Balance at end of period	**$55**	**$1,310**	**$-**	**$-**	**$1,365**
Total gains (losses) for the first nine months of 2018 included in comprehensive income for instruments held at the end of the quarter	**$(11)**	**$103**	**$-**	**$-**	**$92**

Changes in valuation methods may result in transfers into or out of Levels 1, 2 and 3. In the first nine 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 September 30, 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 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 $68 million to a favourable change of $66 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 111 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)	**Sep 2018 Exposure**		Jun 2018 Exposure		Dec 2017 Exposure		Sep 2017 Exposure	
Country	**$**	**%**	$	%	$	%	$	%
United States	**21,705**	**29**	19,945	28	16,995	27	15,314	24
Canada	**10,035**	**14**	10,068	14	7,573	12	8,094	13
United Kingdom	**4,936**	**7**	5,036	7	5,492	9	5,222	8
India	**4,214**	**6**	3,994	6	3,587	6	3,177	5
Australia	**3,426**	**5**	3,112	4	3,009	5	2,969	5
Mexico	**2,839**	**4**	2,464	3	2,135	3	2,371	4
Chile	**2,641**	**4**	2,551	4	2,251	3	1,903	3
Saudi Arabia	**1,978**	**3**	2,044	3	2,019	3	2,073	3
Germany	**1,623**	**2**	2,124	3	1,530	2	1,546	2
China	**1,610**	**2**	1,698	2	1,681	3	1,740	3
Other	**18,692**	**24**	18,920	26	17,196	27	18,387	30
Total	**$73,699**	**100**	$71,956	100	$63,468	100	$62,796	100

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

(in millions of Canadian dollars)	**Sep 2018 Exposure**		Jun 2018 Exposure		Dec 2017 Exposure		Sep 2017 Exposure	
Industry	**$**	**%**	$	%	$	%	$	%
Commercial:								
Aerospace	**11,173**	**15**	11,625	16	12,123	19	12,311	20
Financial institutions	**10,419**	**14**	9,496	13	7,728	12	8,760	14
Oil and gas	**8,809**	**12**	8,202	11	7,527	12	8,608	14
Information and communication technologies	**6,966**	**9**	6,474	9	6,280	10	5,497	9
Infrastructure and environment	**6,451**	**9**	5,996	8	5,216	8	5,132	8
Surface transportation	**6,143**	**8**	5,866	8	5,671	9	5,698	9
Mining	**5,838**	**8**	6,724	9	6,601	10	6,172	10
Other	**5,661**	**8**	4,853	8	4,117	7	3,983	5
Total commercial	**61,460**	**83**	59,236	82	55,263	87	56,161	89
Sovereign	**12,239**	**17**	12,720	18	8,205	13	6,635	11
Total	**$73,699**	**100**	$71,956	100	$63,468	100	$62,796	100

10. Loan Revenue

(in millions of Canadian dollars)	Three months ended			Nine months ended	
	Sep 2018	Jun 2018	Sep 2017	**Sep 2018**	Sep 2017
Loan interest					
Floating rate	**403**	369	314	**1,104**	938
Fixed rate	**118**	118	111	**351**	341
Loan fee revenue	**42**	52	43	**141**	136
Impaired revenue	**6**	5	4	**15**	14
Total loan revenue	**$569**	$544	$472	**$1,611**	$1,429

11. Interest Expense

(in millions of Canadian dollars)	Three months ended			Nine months ended	
	Sep 2018	Jun 2018	Sep 2017 (2)	**Sep 2018**	Sep 2017 (2)
Loans payable and related derivatives					
Short-term payables	**69**	73	39	**187**	97
Long-term payables – floating	**218**	194	115	**559**	318
Long-term payables – fixed(1)	**44**	39	34	**120**	98
Other	**1**	3	-	**4**	2
Total interest expense	**$332**	$309	$188	**$870**	$515

(1) *Includes interest expense for debt classified at amortized cost of $34 million for the three months ended September 2018 (June 2018 – $34 million and September 2017 – $24 million), and a cost of $100 million for the nine months ended September 2018 (September 2017 – $78 million).*

(2) *Interest expense on certain instruments has been reclassified to conform to the current period presentation.*

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:

(in millions of Canadian dollars)	Three months ended														
					Sep 2018					Jun 2018					Sep 2017
	CI	**FII**	**CIB**	**PRI**	**Total**	CI	FII	CIB	PRI	Total	CI	FII	CIB	PRI	Total
Premiums earned	**31**	**3**	**23**	**6**	**63**	27	4	22	6	59	27	4	20	7	58
Reinsurance ceded	**(2)**	**-**	**(3)**	**(4)**	**(9)**	(2)	(1)	(4)	(3)	(10)	(1)	-	(3)	(5)	(9)
Net insurance premiums and guarantee fees	**$29**	**$3**	**$20**	**$2**	**$54**	$25	$3	$18	$3	$49	$26	$4	$17	$2	$49

(in millions of Canadian dollars)	Nine months ended									
					Sep 2018					Sep 2017
	CI	**FII**	**CIB**	**PRI**	**Total**	CI	FII	CIB	PRI	Total
Premiums earned	**86**	**11**	**67**	**18**	**182**	82	14	61	20	177
Reinsurance ceded	**(6)**	**(1)**	**(10)**	**(11)**	**(28)**	(4)	-	(11)	(13)	(28)
Net insurance premiums and guarantee fees	**$80**	**$10**	**$57**	**$7**	**$154**	$78	$14	$50	$7	$149

13. Claims-Related Expenses

(in millions of Canadian dollars)	Three months ended **Sep 2018**	Three months ended Jun 2018	Three months ended Sep 2017	Nine months ended **Sep 2018**	Nine months ended Sep 2017
Claims paid	**20**	15	59	**52**	104
Claims recovered	**(3)**	(25)	(26)	**(33)**	(32)
Claims recovered from reinsurers	**(2)**	-	(2)	**(2)**	(2)
Actuarial increase in the net allowance for claims on insurance	**120**	14	34	**148**	59
Decrease in recoverable insurance claims	**2**	13	11	**11**	17
Claims handling expenses	**2**	-	2	**3**	3
Total claims-related expenses	**$139**	$17	$78	**$179**	$149

14. Other (Income) Expenses

	Three months ended			Nine months ended	
(in millions of Canadian dollars)	**Sep 2018**	Jun 2018	Sep 2017	**Sep 2018**	Sep 2017
Net realized and unrealized gain on loans payable designated at fair value through profit or loss	**(61)**	(9)	(31)	**(174)**	(5)
Net realized and unrealized (gain) loss on derivatives	**(38)**	18	50	**(5)**	35
Net realized and unrealized (gain) loss on marketable securities at fair value through profit or loss	**37**	25	5	**117**	(9)
Net realized and unrealized gain on investments at fair value through profit or loss	**(12)**	(54)	(14)	**(98)**	(15)
Foreign exchange translation (gain) loss	**2**	7	(2)	**15**	8
Other	**1**	1	10	**2**	40
Total other (income) expenses	**$(71)**	$(12)	$18	**$(143)**	$54

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. However, our unrealized gains and losses may not align in all periods, as we also hold derivatives related to our Canadian dollar capital and our loans receivable, which do not have corresponding fair value treatment.

For the third quarter of 2018, we recorded net realized and unrealized gains of $62 million for our derivatives, loans payable and marketable securities compared to losses of $34 million in the previous quarter. These gains were as a result of increases in rates used to value our loans payable and derivatives used to manage our interest rate risk, partially offset by losses on our marketable securities. 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.

15. Administrative Expenses

	Three months ended			Nine months ended	
(in millions of Canadian dollars)	**Sep 2018**	Jun 2018	Sep 2017	**Sep 2018**	Sep 2017
Salaries and benefits	**56**	56	53	**170**	163
Pension, other retirement and post-employment benefits	**12**	12	13	**36**	38
Professional services	**13**	14	9	**38**	24
Amortization and depreciation	**8**	8	7	**24**	19
Occupancy	**7**	6	7	**19**	21
Marketing and communications	**6**	4	5	**13**	11
Travel, hospitality and conferences	**2**	3	2	**8**	6
Other	**17**	13	11	**45**	34
Total administrative expenses	**$121**	$116	$107	**$353**	$316

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

	Three months ended			Nine months ended	
(in millions of Canadian dollars)	**Sep 2018**	Jun 2018	Sep 2017	**Sep 2018**	Sep 2017
Pension benefit expense	**9**	9	8	**27**	25
Other post-employment benefit and severance expense	**3**	3	5	**9**	13
Total	**$12**	$12	$13	**$36**	$38

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.