



# 2015–2019 CORPORATE PLAN SUMMARY

OPERATING BUDGET • CAPITAL BUDGET • BORROWING PLAN



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# EXECUTIVE SUMMARY

EDC is a Crown corporation which provides trade finance and risk management services to Canadian companies to help them take advantage of global trade and investment opportunities.

Our mandate is to 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. At the core of our mission is our unique ability to take on and manage significant levels of risk in order to facilitate the success of Canadian companies in international markets.

## THE PLANNING ENVIRONMENT

Momentum is beginning to build in the global economy and, driven largely by the US, world growth is returning. And while economic growth in emerging markets has declined, these markets are still the world's fastest growing, and should remain so throughout the planning period.

Six years after the global financial crisis, advanced economies are gaining momentum and starting to once again drive global growth. While some challenges persist, we expect world growth to return to previous norms, with developed economies leading the way and emerging markets following with higher levels.

Within this context, conditions are set for Canada's exports to rise approximately 4 per cent in 2015. Trade and investment will be key drivers for the Canadian economy over the planning period. Critical to long-term economic success will be growth in the number of small and medium sized enterprises (SMEs) engaged in international trade and the ability of Canadian companies to diversify to new markets.

## THE BUSINESS STRATEGY

EDC is the go-to, trade finance solutions provider for Canadian exporters: both those planning to export for the first time as well as experienced exporters looking to expand their international footprint.

Over the years, we have evolved our solutions to meet the needs of companies of all sizes. We serve both large Canadian corporations with operations around the globe, as well as small business entrepreneurs, and companies of all sizes in between. While each of their needs are different, our goal remains the same: to provide a solution that will help them export.

A key measure of success for the organization over the next five years will be our contribution to Canada's Global Markets Action Plan (GMAP), including support for SMEs. We will work in collaboration with the Trade Commissioner Service, other government partners and the private sector to ensure that our solutions enable Canadian companies to win new business in markets around the world.

Our business strategy for the period 2015-2019 is focused on executing the various initiatives we currently have underway, while also watching the landscape ahead to position ourselves to help Canadian companies – particularly SMEs – achieve future success in new markets.

The 2015-2019 Business Strategy outlines three strategic objectives:

1. **Build awareness about EDC and the benefits of exporting to encourage trade growth:** We will ensure that Canadian businesses that have yet to export are aware of the benefits. We will also build awareness of the services EDC can provide to help them become exporters or grow their business overseas.
2. **Offer both standard and tailored solutions:** We will provide a range of easy to access, standard products and services for current and potential exporters while also providing tailored services for companies that can benefit from this approach.
3. **Increase trade diversification:** We will help Canadian companies expand beyond traditional markets.

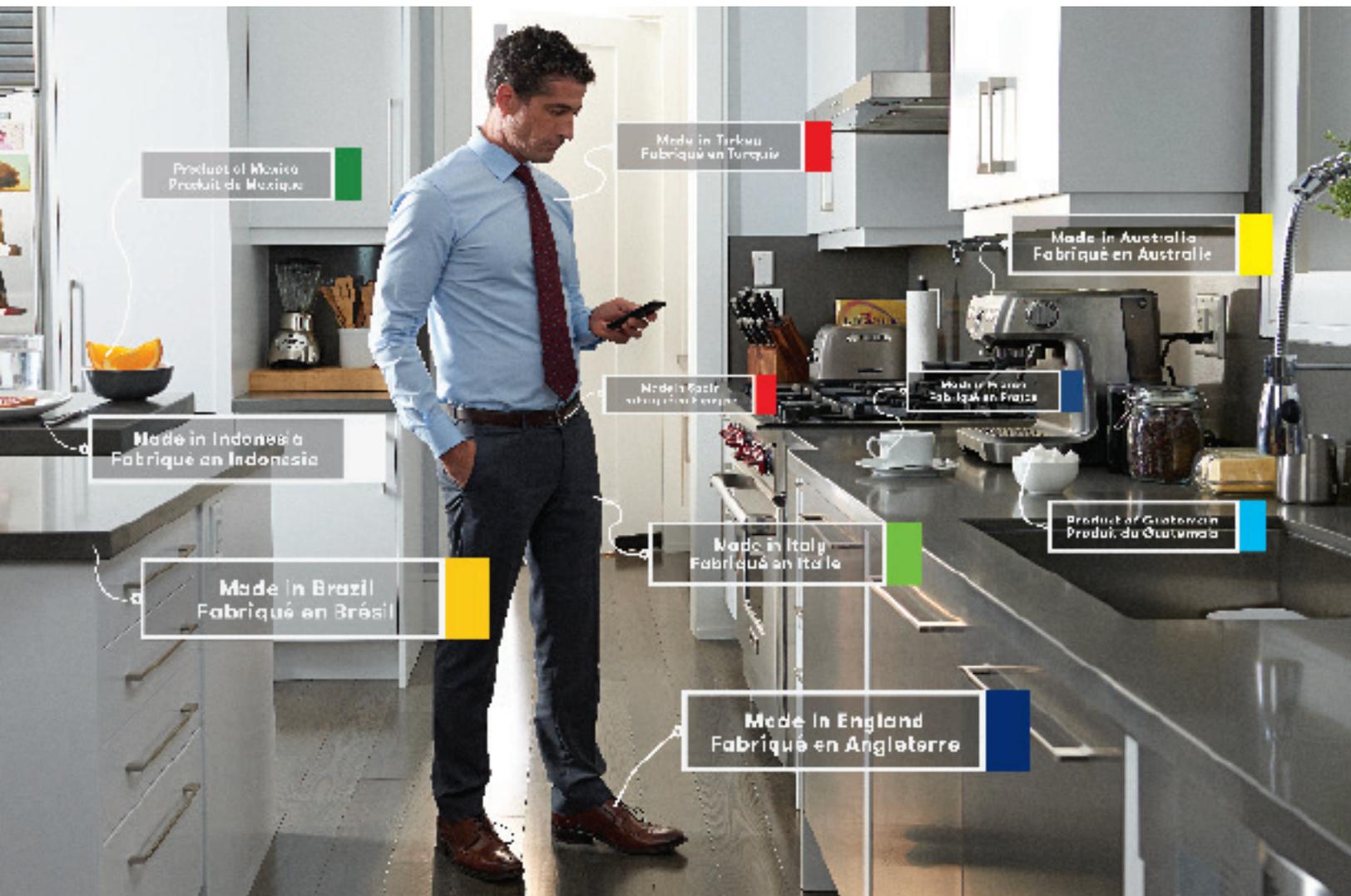
We remain committed to a Partnership-Preferred Philosophy and to Corporate Social Responsibility (CSR). Our Partnership-Preferred Philosophy means that we need to have in mind the best interests of Canadian companies and use our financial capacity in a manner that is complementary to the products and services of private-sector financial institutions. Our commitment to CSR is founded on our goal to meet the expectations of Canadians to act as a good corporate citizen, upholding Canada's values both at home and abroad, while ensuring that Canadian businesses benefit from international business opportunities.

We are able to deliver on our objectives because of our strong practices for operational management. These include financial sustainability, risk management and human resources. We work to ensure that our practices are aligned with the Government of Canada's priorities and that we follow best practices in all of these areas, while continually looking for ways to create additional efficiency and value for the corporation.

## THE FINANCIAL PLAN

Our ability to deploy lending and insurance solutions to Canadian global businesses is dependent on our commitment to sound financial management. The 2015-2019 Financial Plan outlines how EDC is managing its administrative and operating expenses through a productivity ratio. The Financial Plan also provides details on our key business assumptions, which underlay our projected financial performance. Chapter 3 includes Statements of Comprehensive Income, Statements of Financial Position, Statement of Changes in Equity, Statements of Cash Flows and planned capital expenditures for 2015-2019.

# INTRODUCTION



## THE IMPORTANCE OF TRADE

One in every five Canadian jobs is directly linked to exports — and trade is an effective way to drive economic growth and prosperity. Canada's future economic success is dependent on its ability to capture an increasing share of global trade.

In recognition of this fact, the Government of Canada unveiled its Global Markets Action Plan (GMAP) in 2013, with the goal of focusing Canada's efforts on the markets that hold the greatest promise. This is achieved through a focus on trade promotion and trade policy.

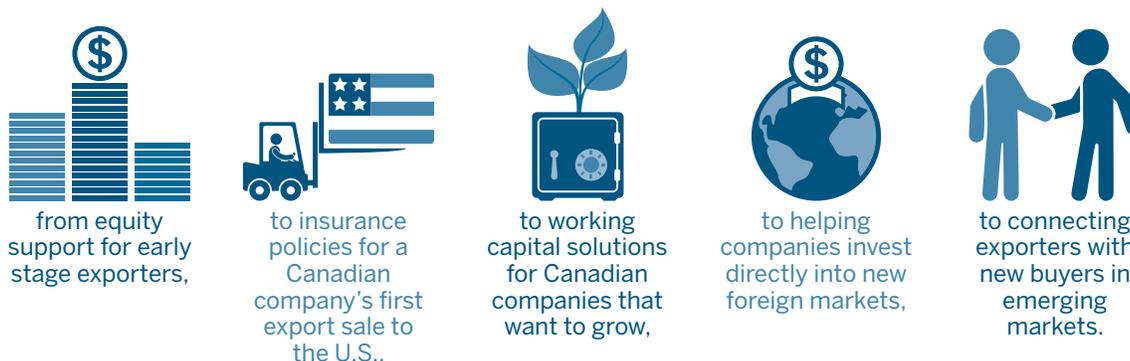
In 2013, Canadian exports represented approximately 30 per cent of GDP and international trade continues to have a significant impact on the Canadian economy. However, the global economy continues to shift and Canada must be able to adapt to this changing landscape in order to stay competitive. It is within this context that Export Development Canada (EDC), a Crown corporation that is part of the Government's trade portfolio, operates.

## EDC OVERVIEW

Created in 1944 as Canada's export credit agency, EDC's mandate is to 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.

We fulfill this mandate by creating financial solutions for companies to bring Canadian capabilities and expertise around the world – connecting them directly to foreign buyers and global supply chains – in order to bring benefits home to Canada. Our contribution to helping companies that export or invest overseas increases Canada's trade capability and creates benefits for Canada, contributing to GDP.

With our broad-based products and solutions, we can support Canadian companies at every stage in the exporting life cycle;



This ability to provide the right solution at the right time to companies of all sizes is our competitive advantage. Over time, we have developed our organization and its solutions so that we can assist both small entrepreneurs and large corporations. Where possible, we leverage our relationships with Canada's leading large exporters to integrate small Canadian firms into their supply chains to introduce them to exporting for the first time or help them move beyond their traditional trading partners.

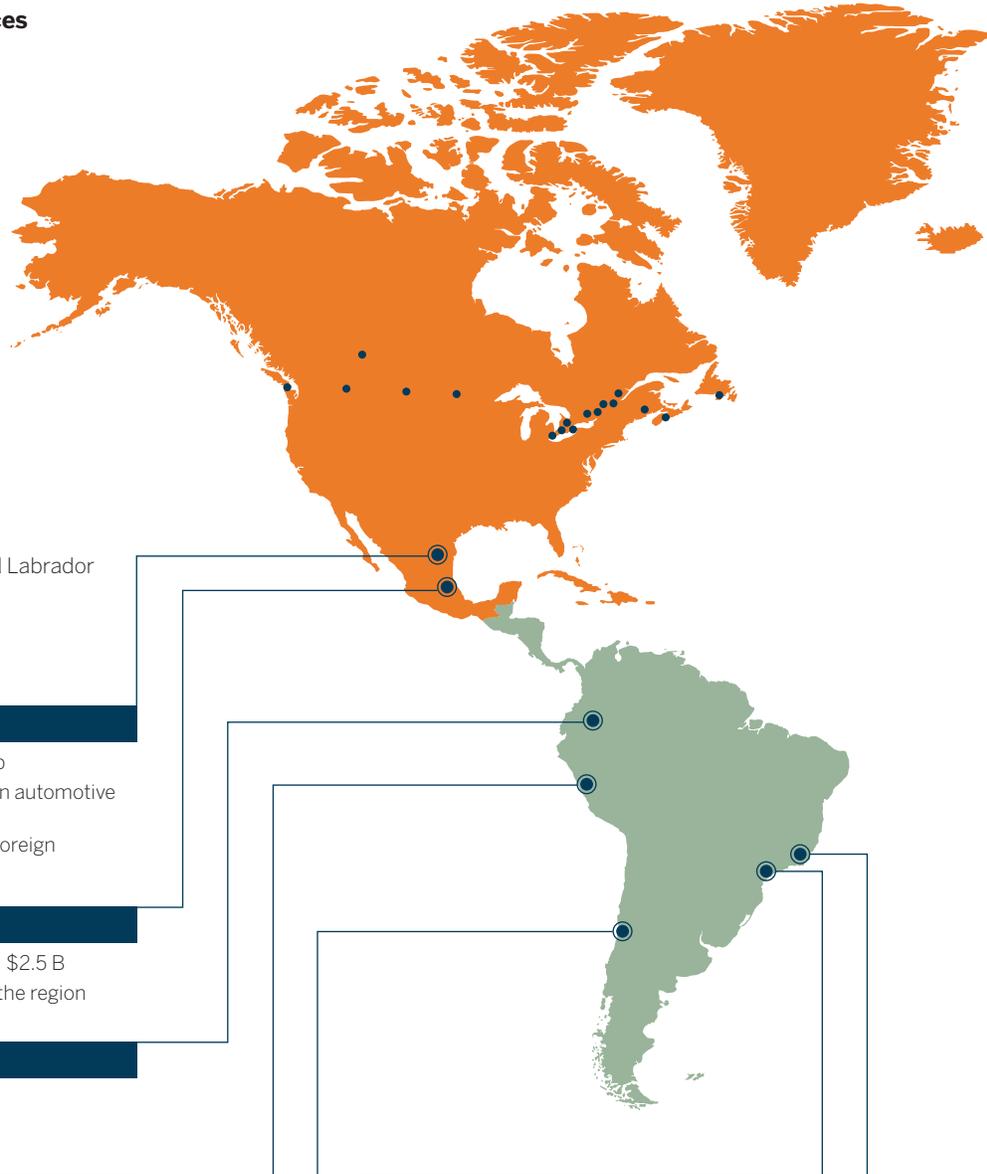
Canadian small- and medium-sized enterprises (SME) represent about 80 per cent of our customer base, and supporting and increasing their export trade will remain a priority for EDC throughout the planning period. As the GMAP sets a concrete target to increase the percentage of Canada's SME activity in emerging markets from 29 per cent (11,000 companies) to 50 per cent (21,000 companies) by 2018, EDC will work closely with the Department of Foreign Affairs, Trade and Development (DFATD) to achieve this target.

# EDC Around the World

EDC has 16 international representations, with nearly 40 staff working on the ground to ease the way for Canadian exporters and investors. EDC also has 17 offices across Canada to connect more easily with Canadian exporters at home.

## Canadian Regional Offices

Vancouver, British Columbia  
Calgary, Alberta  
Edmonton, Alberta  
Regina, Saskatchewan  
Winnipeg, Manitoba  
Windsor, Ontario  
London, Ontario  
Mississauga, Ontario  
Toronto, Ontario  
Ottawa, Ontario  
Ville Saint-Laurent, Québec  
Montreal, Québec  
Drummondville, Québec  
Québec City, Québec  
Moncton, New Brunswick  
Halifax, Nova Scotia  
St. John's, Newfoundland and Labrador



### Monterrey | Mexico

- › Important manufacturing hub
- › Key region for North American automotive supply chains
- › Attractive area for Canadian foreign investment

### Mexico City | Mexico

- › Customer business (Mexico): \$2.5 B
- › More than 700 customers in the region

### Bogota | Colombia

- › New representation for 2013
- › Covers Andean region

### Lima | Peru

- › Customer business for region: \$1.5 B
- › Peru & Colombia in top 3 South American markets

### Santiago | Chile

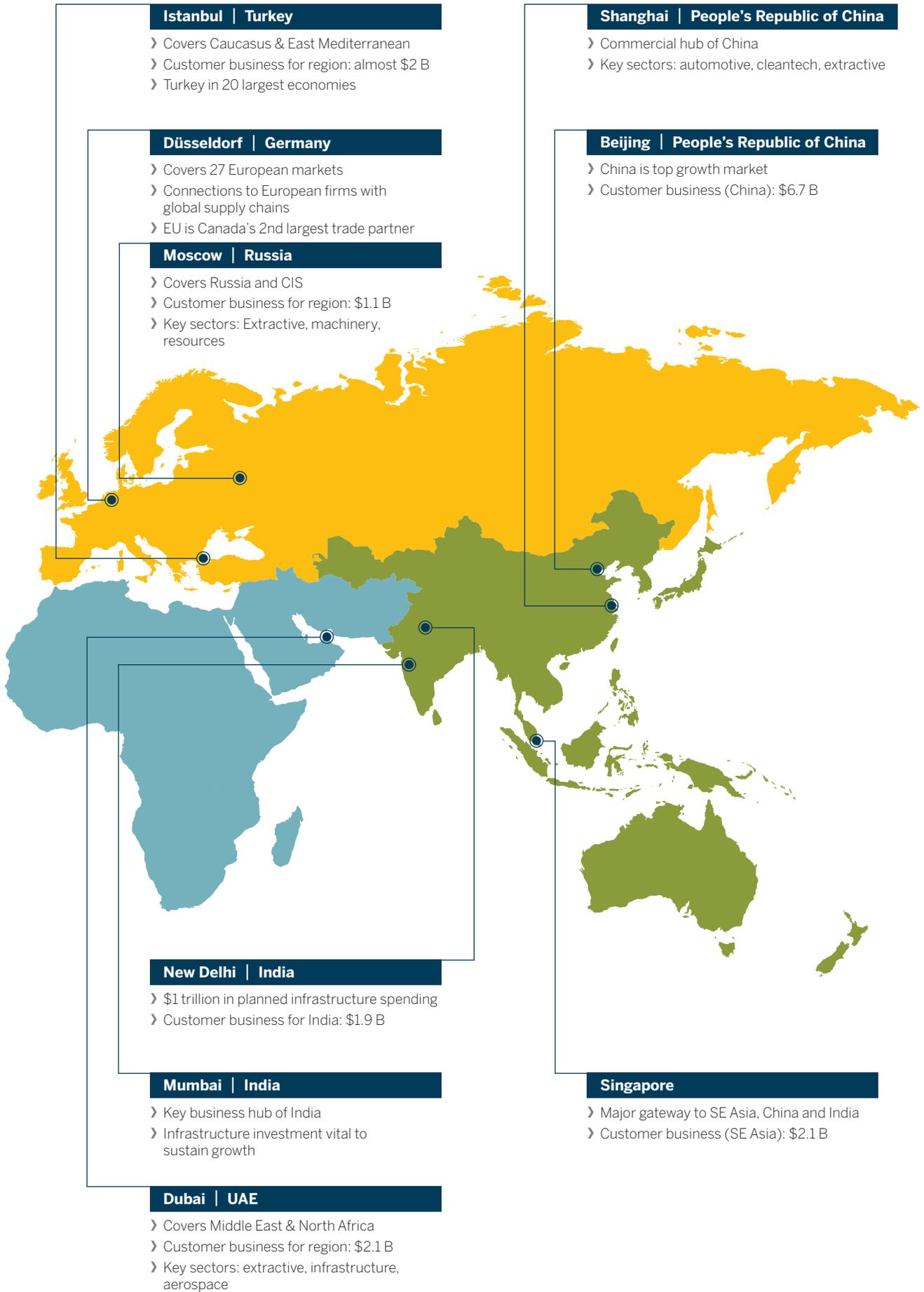
- › Canada is largest foreign investor in Chile
- › Key sectors: mining, infrastructure, resources
- › Customer business: \$1.1 B

### São Paulo | Brazil

- › Key business hub of Brazil
- › Customer business (Brazil): \$2.1 B

### Rio De Janeiro | Brazil

- › Infrastructure boom leading to 2016 Olympics
- › Many Canadian engineering affiliates



**Istanbul | Turkey**

- › Covers Caucasus & East Mediterranean
- › Customer business for region: almost \$2 B
- › Turkey in 20 largest economies

**Düsseldorf | Germany**

- › Covers 27 European markets
- › Connections to European firms with global supply chains
- › EU is Canada's 2nd largest trade partner

**Moscow | Russia**

- › Covers Russia and CIS
- › Customer business for region: \$1.1 B
- › Key sectors: Extractive, machinery, resources

**Shanghai | People's Republic of China**

- › Commercial hub of China
- › Key sectors: automotive, cleantech, extractive

**Beijing | People's Republic of China**

- › China is top growth market
- › Customer business (China): \$6.7 B

**New Delhi | India**

- › \$1 trillion in planned infrastructure spending
- › Customer business for India: \$1.9 B

**Mumbai | India**

- › Key business hub of India
- › Infrastructure investment vital to sustain growth

**Dubai | UAE**

- › Covers Middle East & North Africa
- › Customer business for region: \$2.1 B
- › Key sectors: extractive, infrastructure, aerospace

**Singapore**

- › Major gateway to SE Asia, China and India
- › Customer business (SE Asia): \$2.1 B

# CHAPTER 1: THE PLANNING ENVIRONMENT

Momentum is building in the global economy and, driven largely by the US, world growth is returning. And while emerging markets economic growth has declined, these markets are still the world's fastest growing, and should remain so throughout the planning period.

## 1.1 GLOBAL OUTLOOK

Six years past the global financial crisis, advanced economies are gaining momentum and starting to once again drive global growth.

In fact, consumption in the developed world at large dropped dramatically during the recession, when consumers delayed purchases for years. These low activity levels throughout the past six years created a great deal of pent-up demand, particularly in the US.

Now that confidence is stronger, and consumers are ready to spend again, we expect to see more opportunities in many sectors. The U.S. economy, the engine of world growth is expected to increase by 3.6 per cent; Europe should see a 1.4 per cent increase and Japan, 1.2 per cent.

And while emerging market growth has slowed in some areas, their outlook still exceeds that of most developed markets, fueled by this increased demand from developed nations.

Certainly, India has stagnated, but the new government has the power to effect change throughout the planning period. There are also concerns about a slowdown in China, but when global trade returns, so will China's growth. In fact, China could overtake the U.S. as the world's largest consumer economy within the planning period, and BRICS countries combined could account for more than half of the world's GDP.

Other frontier markets, such as emerging Asia, particularly the ASEAN countries, will also see strong growth. Looking further ahead, Sub-Saharan Africa has seen an average annual GDP growth rate of 5.5 per cent in the past decade, and we expect this pace to continue presenting many opportunities for Canadian suppliers throughout the planning period.

There are however, still challenges that EDC is mindful of, particularly unpredictable geo-political risk such as the current situation in the Middle East, which could have a serious impact on oil markets, as well as the situation in Russia, which has the potential to undermine investment worldwide.

Ultimately, in 3 to 5 years, we expect world growth will look more like the old normal; with developed economies leading the way and emerging markets following with higher levels.

## 1.2 WHAT DOES THIS MEAN FOR CANADA?

Overall growth in the developing world should boost trade and investment for Canada throughout the planning period. Canada's export growth was 3.2 percent in 2013 and is expected to end 2014 at approximately 9 per cent. For 2015, we expect to see Canada's exports rise to approximately 4 per cent. Moving forward, trade-related business and investment will drive the Canadian economy.

Key to this will be more diversification; exporting a broader range of products and services, and exporting into new markets.

Increasing the ranks of Canadian SMEs engaged in international trade will also play an important role in improving Canada's trade performance and overall economic health.

Currently, SMEs make up about 98% of Canada's businesses and 60% of employment. But of the more than 1 million operating in Canada, only 4% are currently exporting, with the majority of these exports going to the U.S. The health of the Canadian economy moving forward, will depend on helping more SMEs to export.

Working to their advantage, Canada is on track to implement a further 13 trade and more than 20 investment agreements by 2020, such as the Comprehensive Economic Trade Agreement (CETA) and the Canada-Korea Free Trade Agreement. At this pace, Canada will more than double the total number of agreements, many of which go beyond tariff considerations to include elements key to integrative trade; such as protection for investments and labour mobility. This means a large percentage of the global economy will be open for Canadian exporters in the next five years.

A lower dollar, which we expect to drift down to the low 90 cents, could provide a short-term lift for smaller exporters, but at the same time may challenge Canadian companies wanting to make investments over the long-term.

As Canada weaves its way through the economic recovery and adjusts to emerging trends listed below, SME support mechanisms must be in place in order for this critical segment to capitalize on opportunities.

As such, EDC's business strategy will devote a special focus to helping more SMEs begin exporting, and helping current exporting SMEs to diversify and grow.

## 1.3 EMERGING TRENDS

Recent trends, such as new trade routes and changing demographics in emerging markets (rising middle classes and increased urbanization), have been altering the global economic landscape. These trends could have a large impact on Canadian trade moving forward, provided Canadian companies capitalize on these opportunities.

### NEW TRADE ROUTES

Emerging markets now account for half of all global trade. And as these economies have raised their share in world trade, they have increasingly done so by trading with each other, creating entirely new, intra-regional supply chains. This “South-South” trade should surpass 25% of world trade within five years.

While South-South trade takes place within emerging economies, there are opportunities for Canadian companies to insert themselves into regional supply chains. For example, an initial investment in one regional market can be used to access supply chains that service other markets that would otherwise be challenging to enter for geographic, logistical, cultural or other reasons.

This underscores the importance of Canadian direct investment abroad (CDIA). It is critical to gain access to these new markets and supply chains, to get closer to foreign buyers. Furthermore, setting up an affiliate in a particular emerging market enables access to the preferential trade agreements specific to that country.

Many of these south-south supply chains can be accessed through gateway markets in developed Asia and Australia, activity that should gain new momentum as world growth recovers.

Support for larger Canadian companies in penetrating deeper into these large global value chains in emerging markets, can also present opportunities to bring more SMEs along. For example, aerospace companies and big auto sector players that supply to even larger foreign Original Equipment manufacturers (OEMs) often rely on smaller Canadian companies to supply parts. When these larger companies expand their international footprint, they open the door for more SMEs to grow and diversify.

### RISING MIDDLE CLASSES

As emerging economies have integrated, their middle classes have been rising exponentially, creating an abundance of consumers with income to buy more goods and services. The middle class in China, for example is expanding by about 40 million people a year, India by 10 to 20 million and Indonesia by 7 million.

Specifically, these growing middle classes are consuming more goods of higher quality; from cars to food. These regions cannot currently accommodate their own demands and are becoming growing importers of high-quality goods. As a result, some of the most rapidly growing industries in these regions now include agriculture, fertilizer and agri-food, alternative energies, forestry, life sciences, and information technology. These demands bode well for Canadian companies that produce what these new consumers want to buy.

## INCREASED URBANIZATION

These same growing middle classes are also urbanizing at high rates, creating infrastructure deficits such as roads, ports, railways and airports, all areas of Canadian expertise. India for example, has introduced an economic plan that calls for \$1 trillion in capital expenditure investments by 2017. At the same time, many of these markets are eager to address deteriorating environmental conditions. China, for example, expects to spend close to \$300 billion to address its pollution issues throughout the planning period, presenting many opportunities for Canadian companies in the clean technologies sector.

For projects like these, export credit agencies and multilateral institutions could have a bigger role to play. Within the planning period, traditional sources of financing to emerging markets may not be as fluid. Canadian exporters that can bring financing solutions along with their goods, could be well-positioned to grow.

As always the global economy is vulnerable to unforeseen disruptions, and there are still challenges on the horizon which could threaten the outlook. Overall however, we believe that the global economy has finally reached a tipping point. Economic momentum around the world, along with a boost from increased confidence and better times for OECD economies, also suggests that emerging markets will finally see a lift in trade activity, presenting opportunities for Canadian exports to seize.

As many companies learned from the recession, relying on just one market (including the domestic market) can leave them vulnerable to local market instability. Now, with the U.S. market rebounding and unpredictable pockets of political risk around the world, many Canadian companies are pursuing new opportunities with our largest trading partner. While they are wise to do so, these companies, particularly SMEs, also need to pursue export business in other areas of high growth, and continue to diversify into emerging markets.

Export-related trade and investment, in both developed and emerging markets, will drive Canada forward throughout the planning period. Improving Canada's trade performance will mean increasing the number of SMEs engaged in international trade, and increasing the support to overcome the many obstacles faced by companies already conducting business in global markets.

EDC has an important role to play in helping Canadian exporters take advantage of the opportunities identified in the planning environment, and our business strategy has taken these factors into consideration.

# CHAPTER 2: THE BUSINESS STRATEGY

## 2.1 OVERVIEW

Export Development Canada is the go-to, trade finance solutions provider for Canadian exporters: both those planning to export for the first time as well as experienced exporters looking to expand their international footprint.

Our business strategy for the period 2015-2019 is focused on executing the various initiatives we currently have underway, such as the Credit Insurance Transformation and clean technology, while also keeping an eye on the landscape ahead to position ourselves to help Canadian companies – particularly SMEs – achieve long-term success in new markets. To do so, we will ensure that our products and services meet the growing needs of Canadian exporters, by providing a standard offering for those exporters who require easy to access solutions and a tailored offering to assist those exporters whose needs are more complex. We will also make exporters more aware about the benefits of exporting and develop an active presence in markets which offer the greatest potential for Canadian businesses to diversify their exports.

Over the years, we have evolved our solutions to meet the needs of companies of all sizes. We serve large Canadian corporations with operations around the globe as well as small business entrepreneurs, and companies of all sizes in between. While each of their needs are different, our goal remains the same: to provide a solution that will help them export.

## 2.2 SUPPORT FOR SMEs AND CONTRIBUTING TO CANADA'S GLOBAL MARKETS ACTION PLAN

Ensuring the future health and prosperity of Canada's economy through increased trade and investment in global markets is a key priority for the Government of Canada and EDC. A key measure of our success over the next five years will be our ability to support SMEs as they look to export for the first time or expand to new markets.

In 2013, almost 80 per cent of our customers were SMEs. But of the more than 1 million SMEs operating in Canada, only 41,000 are currently exporting. About 77 per cent of their exports are going to the U.S.

Research indicates that exporting boosts SME performance, and that boost is greatest when selling into high growth emerging markets. As such, the Government of Canada launched the Global Markets Action Plan (GMAP) in 2013, with a goal to increase the number of SMEs active in emerging markets from 11,000 to 21,000 over five years.

We will contribute to meeting the objectives of GMAP by finding SMEs the right solution for their exporting needs, whether it comes from EDC, or is delivered in partnership with the private sector or one of our partners in the government's trade portfolio, such as the Trade Commissioner Service (TCS).

To that end, we have developed several new solutions in recent years. In addition to our financing and insurance solutions, we also leverage our financing relationships with large foreign buyers to create the conditions for them to procure from Canadian suppliers, to introduce more SMEs into these global supply chains. In doing so, we are collaborating closely with Trade Commissioners in market, sharing intelligence and incorporating each other in outreach events.

Furthermore, our international representations cover all Tier 1 priority emerging markets with broad Canadian interests identified in the GMAP and we are working towards expanding our reach so that we can better serve exporters looking to participate in GMAP priority markets.

## 2.3 STRATEGY AND OBJECTIVES

Over the past few years we have explored new ways to support exporters of all sizes in Canada. We have undertaken transformation projects to improve services for our customers, focused on introducing exporters to new markets around the globe, and adapted our solutions to better meet the needs of SMEs in Canada. This strategy has served exporters well and we will continue to execute on these activities in the years ahead.

Throughout the planning period, our goal is to increase and diversify Canada's trade activities by providing the right solution at the right time. In addition to providing our suite of financial services, we will turn our knowledge of international trade finance and export markets, as well as our business connections around the world into services designed to help companies grow internationally.

We have identified three main objectives that are the foundation of our plan.

1. **Build awareness about EDC and the benefits of exporting to encourage trade growth:** We will ensure that Canadian businesses that have yet to export are aware of the benefits. We will also build awareness of the services EDC can provide to help them become exporters or grow their business overseas.
2. **Offer both standard and tailored solutions:** We will provide a range of easy to access, standard products and services for current and potential exporters while also providing tailored services for companies that can benefit from this approach.
3. **Increase trade diversification:** We will help Canadian companies expand beyond traditional markets.

## 2.4 THE RIGHT SOLUTION AT THE RIGHT TIME

To achieve success, we must understand the needs of Canadian exporters and respond to these needs with products and services that can help them overcome obstacles to exporting.

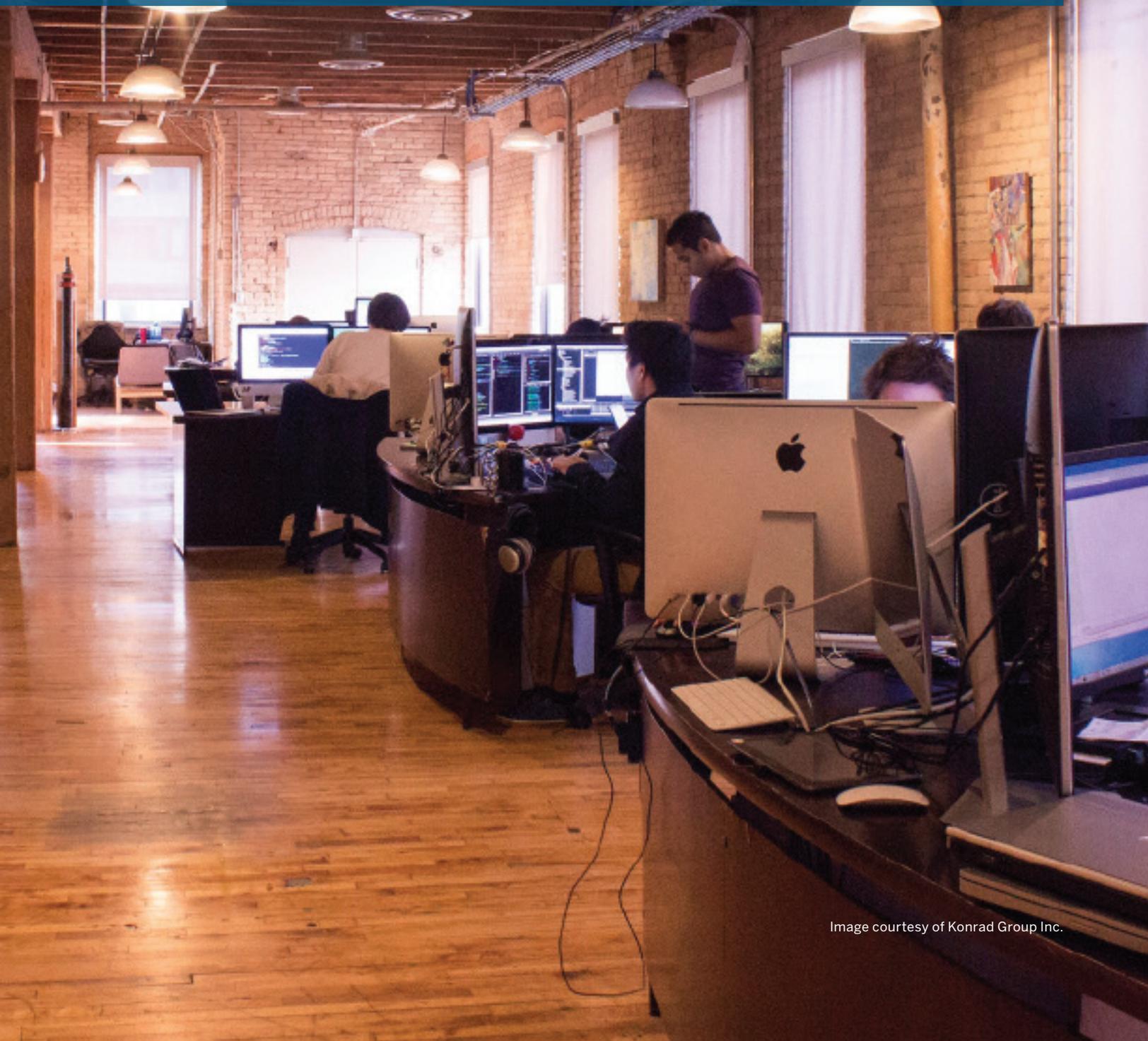
Often, we have a product or service within our existing toolkit that meets their requirements. In the cases where we don't, we will create tailored solutions to meet their needs, or refer them to one of our partners with complementary services who can address their specific challenge.

### EDC'S REGIONAL AND INTERNATIONAL PRESENCE

One of the ways that we can identify emerging trends and develop solutions in advance of our customers' needs is by gaining on-the-ground knowledge of a particular market or sector. Our network of foreign representations helps deepen relationships with local buyers and borrowers, and provide on-the-ground market information and intelligence to Canadian exporters and investors. Understanding the financial and procurement needs of local borrowers and buyers helps us to identify opportunities for Canadian supply and investment, and offer market-specific financial solutions that benefit Canadian companies.

EDC has 16 international representations to ease the way for Canadian exporters and investors. EDC also has 17 offices across Canada to connect more easily with Canadian exporters at home.

Konrad Group is an up and coming player in the mobile app world. When the group first formed it was three University of Toronto students in a room with an idea. Now just four years later, Konrad Group has grown to be over 125 people with offices in Toronto, New York, Chicago and San Jose, Costa Rica. Two years ago when the group was looking to secure some of its first big commercial contracts, they had a hard time finding a financial institution that would back them. EDC was able to offer them an Accounts Receivable Insurance policy, allowing them the lending value against their international receivables. Since then they have also used the Export Guarantee Program to support the expansion of the New York office. With interest in the company continuing to grow, Konrad Group is expecting to become a \$100 million dollar business in the coming year.



## OVERVIEW OF EDC’S FINANCING AND INSURANCE SOLUTIONS

EDC’s financing and insurance solutions are intended to add capacity where and when it is needed. We provide a range of services to help exporters in a variety of areas.

### FINANCING

To meet the needs of Canadian companies in competitive global markets, we have products that will ensure companies have financing readily available to fulfill orders, open a foreign branch, or even to provide financing for their customers.

Export Guarantee Program	EDC can provide a guarantee to a company’s financial institution to encourage them to extend the financing companies need through the Export Guarantee Program.
Supplier Financing	For investment-grade buyers - those rated BBB or higher - EDC can provide Supplier Financing and purchase promissory notes under the financing terms of a company’s commercial contract, giving a company the equivalent of a cash sale.
Foreign Buyer Financing	Having a financing proposal for a prospective customer can be a critical part of a sales pitch. EDC’s Foreign Buyer Financing can give a company that and all the benefits of a cash sale because EDC disburses the funds directly to the company and collects from the customer.
Project Finance	When a company wants to participate in a large-scale global project or joint venture, EDC can provide advice, underwriting expertise, and project finance support across a variety of industry sectors.
Investments	EDC is an investor in direct venture and growth capital investments and partners with private sector fund managers, both domestically and internationally. This program is particularly helpful to small and medium-sized companies as it gives them access to the private equity they need to penetrate the global marketplace. International investments also help connect Canadian companies with foreign buyers.

## BONDING AND GUARANTEE SOLUTIONS

Posting bonds and guarantees is a necessary part of exporting that can tie up a company's cash flow. We have a range of bonding and guarantee solutions, offered in partnership with financial institutions, which can help companies to free up the working capital they need.

Account Performance Security Guarantee	With EDC's Account Performance Security Guarantee, a company's financial institution is fully protected if their customer demands payment against the guarantee the bank provided to the customer on the company's behalf. This can encourage banks to forego the collateral usually required to post such guarantees.
Surety Bond Insurance	A surety company can, similar to a financial institution, issue a contractual or performance bond on a company's behalf. EDC's Surety Bond Insurance can protect a company's existing surety company in the event of a call, encouraging them to provide the company with the bonding capacity they need to sell internationally. If finding a surety company is an issue, EDC can also help companies fulfill their bonding requirements through our various partnerships.
Foreign Exchange Facility Guarantee	EDC's Foreign Exchange Facility Guarantee encourages a company's foreign exchange provider to forego the need for collateral when they sign a foreign exchange contract to lock in exchange rates. This means companies can mitigate fluctuations in exchange rates without tying up their cash flow.
Domestic Surety Bonding and Bank Guarantees	Through a partnership with Canadian financial institutions, bonding and surety companies, EDC can provide re-insurance to surety companies for bonds they provide to cover a company's domestic business.

## INSURANCE SOLUTIONS

EDC has a range of insurance solutions to help companies protect their international business whether they have one contract, one customer or want support for their entire book of business. Our insurance can help companies access the working capital they need and protect their assets as they grow their international sales.

<p>Accounts Receivable Insurance (ARI)</p>	<p>Companies can use ARI to protect all of their international sales against a wide range of risks, from a customer not being able to pay to political upheaval in a particular market. Knowing that their risks are covered also means financial institutions may be more willing to increase access to working capital.</p>
<p>Single Buyer Insurance</p>	<p>Single Buyer Insurance is an affordable way to insure unlimited sales to one customer for 180 days.</p>
<p>Contract Frustration Insurance</p>	<p>For specific export contracts for services, capital goods or projects, this type of insurance is a cost-effective way to protect sales from a variety of risks.</p>
<p>Political Risk Insurance (PRI)</p>	<p>A growing share of Canadian exporters and investors are doing business in higher-risk emerging markets. PRI helps companies mitigate a broad range of political risks such as confiscation, expropriation, political violence, terrorism, war, currency restrictions, and non-payment by foreign government buyers.</p>
<p>Performance Security Insurance</p>	<p>If a company is worried that their customer is going to call the guarantee that they put up as assurance that they will deliver the goods or services as promised, they can protect themselves with EDC's Performance Security Insurance.</p>

## 2.5 EDC'S 2015 – 2019 OBJECTIVES

We have identified three objectives that we will execute during the planning period. These objectives will position us to help SMEs succeed, contribute to the success of GMAP, and grow the number of Canadian businesses exporting.

### OBJECTIVE 1: BUILD AWARENESS ABOUT EDC AND THE BENEFITS OF EXPORTING TO ENCOURAGE TRADE GROWTH

We will ensure that Canadian businesses that have yet to export are aware of the benefits. We will also build awareness of the services EDC can provide to help them become exporters or grow their business overseas.

Our first objective for the planning period is to increase awareness about the benefits of exporting and the services that EDC can offer to Canadian companies of all sizes. The goal of this objective is to encourage trade growth and increase Canada's trade competitiveness.

#### BUILDING AWARENESS

Many Canadian companies have the capability to export today, but are missing opportunities because they are either not aware of them or the services available to help in their first international sale. Our role is to create the conditions for these companies to be able to take advantage of the opportunities.

Over the next few years, working in conjunction with our partners in the TCS, we will increase awareness about exporting. To do so, we will invest in marketing and communications activities to raise awareness on both fronts. We will also continue to strengthen our relationships with the TCS, BDC and CCC so that all four organizations can promote each other's services when appropriate during interactions with Canadian companies.

One way we plan to build awareness is through partners, such as the Canadian Manufacturers and Exporters Association (CME). For example, in 2014 we partnered with CME to launch and promote the Enterprise Canada Network (ECN). The ECN is an industry-led single window platform created by CME that connects Canadian businesses and researchers to qualified global procurement opportunities, facilitates international partnerships, and supports trade diversification through access to public and private sector resources. ECN is a direct channel to our target audience, which gives us the opportunity to raise awareness about our services and products and find new opportunities for Canadian companies.

Over the past few years we have also increased our outreach to Canadian banks and will continue to do so, as they are a key contact point for Canadian businesses thinking about growing internationally.

## OBJECTIVE 2: OFFER BOTH STANDARD AND TAILORED SOLUTIONS

We will provide a range of easy to access, standard products and services for current and potential exporters, while also providing tailored services for companies that can benefit from this approach.

Canadian businesses have a variety of needs in order to be successful exporters. Some simply require insurance for one overseas sale and are best served by a standard product. Others have more complex needs and receive the greatest benefit when we provide a more tailored solution to their specific challenge.

Over the years we have developed a comprehensive suite of products that can help current or future exporters at any stage in their life cycle. Going forward, we will ensure that we have a standard range of products that can be accessed quickly and provide our exporters the support they need to respond to international opportunities in a timely manner. At the same time, we recognize that in some situations, it is necessary for us to tailor our approach for specific customers, certain sectors and in our approach to risk in defined areas.

### TRANSFORMING FOR OUR CUSTOMERS

We recognize that our standard product offering must evolve along with customer needs. Our customers expect fast, simple and predictable services, a consistent experience across all lines of business, as well as access from anywhere at any time. With these expectations in mind, in 2013 we embarked on several projects to transform our technology systems, in order to improve the ease of doing business for our customers.

We are now executing on these large scale transformation projects, which will allow us to serve a wide range of customers through one simple online offering.

As part of our transformation process, we are for instance changing the way we deliver credit insurance. Credit insurance guards Canadian businesses against a number of risks when selling overseas, such as nonpayment. The goal of the Credit Insurance Transformation is to simplify access for our customers. We are undertaking this work to keep pace with the business environment and the continuing shift to e-commerce and respond to the needs of our customers for web-based services.

To date, we've achieved many milestones in this initiative. The nation-wide launch of Trade Protect, an online self-service product that provides selective sales coverage primarily for small businesses, particularly at the very small end of the SME spectrum, is planned for early 2015. With this product, a process to insure a sale of less than \$350,000 that previously could take up to 15 days can now be completed in minutes online, representing a dramatic change in the customer experience. This product will also allow us to reach more SMEs across Canada in 2015 and beyond, while also contributing to Canada's GMAP targets by providing an easy to access product that will reduce the risk for SMEs to sell overseas.



When Canadian candy entrepreneurs Chris Emery and Larry Finson developed Chris' grandma's recipe into Clodhoppers, they were able to sell the business in 2006 for millions and in 2012, came back with OMG's, a chocolaty graham cluster mixture. In 2013, backed by Arlene Dickinson from Dragon's Den, OMG's won a huge contract with Sam's Club in the U.S., but needed \$1.5 million in contract financing to fill the order, and needed a significant loan from their bank. The bank however, was hesitant to provide such a large loan until EDC provided a 100% guarantee. Today, Sam's Club is putting OMG's on the shelves of more than 600 of its stores.

In addition, we will release Trade Partnership Insurance in 2015, a much simpler process for us to provide reinsurance for export sales to our private sector partners, and improved efficiency for our customers benefitting from this product. One of the goals of this product is to encourage more private sector activity in this space.

In 2015, we will further promote and expand the use of Trade Protect, with the goal of helping more small businesses find success overseas.

### TAILORING OUR SERVICES FOR HIGH GROWTH SMEs

While our transformation initiatives are geared to modernizing our standard product suite, we also recognize the opportunity to tailor services to meet the needs of certain segments of customers. One such segment is high-growth SMEs that have the potential to grow their business in a variety of ways, including to new markets or by gaining a greater market share in their existing space.

For 2015 and beyond our business plan is to target certain services specifically for this population. This will include targeting “ready-to-export” and already exporting SMEs in the growth-stage.

SMEs indicate that their lack of emerging market knowledge coupled with a lack of foreign buyer relationships keeps them from seeking new international business opportunities. This is why we will increase efforts to better understand Canadian capabilities and develop buyer connections. Our goal is to help SMEs gain access to the supply chains of large multinational companies, which can help them move to new markets as the multinationals expand their business.

In 2014, a pilot mentoring program was designed and executed with 50 small business customers representing a cross section of sectors and regions across Canada. Under this program, selected companies with high export trade growth aspirations are being provided customized assistance to help them break into new markets. This involves providing market intelligence, exposure to procurement opportunities, and introductions to key partners including the Trade Commissioner Service. The impact and success of this program will be measured by the increase in export sales of participating companies. Feedback on the program to date have been positive, and looking ahead, we plan to identify a broader base of companies to provide similar higher touch services on a larger scale.

### TAKING MORE RISK TO SUPPORT CANADIAN SMEs

Another way that we are tailoring our services to SMEs is by stretching our risk appetite in specific areas.

In 2013 and 2014 we launched a number of new initiatives, including taking more risk in our Export Guarantee Program, which now provides a 100 per cent loan guarantee to domestic banks in order to encourage them to increase their Canadian customer’s credit facilities.

In addition, we launched the Customer Financing Guarantee; a 100 per cent loan guarantee to backstop loans of up to \$10M that a bank would put in place for a foreign customer to purchase goods from Canada.

We also introduced a “stretch” credit approach for Accounts Receivable Insurance that resulted in both an increase in the number of credit approvals for Canadian SMEs on their foreign buyers,

and a faster turnaround time for the customer. In the first six months of this new initiative, we increased our approval rate by 26 per cent for transactions that would not have been previously approved because they were too risky.

Throughout the planning period we will use our investments program to have more impact on SMEs at different stages in their export and international growth. Using the “stretch equity” approach developed in 2014, we will continue to increase our support to earlier stage companies with export plans. This will provide more stability as small companies grow and seek to access various stages of fundraising. We will also increase our hybrid debt/equity offering to provide us with a broader range of options for assisting companies as they reach certain milestones in their international growth.

Further, in 2015 and beyond we will focus on accepting additional risk in some key areas so our customers don't miss out on a potential opportunity.

## SECTOR INITIATIVES

Our business strategy will also target services to companies in specific sectors and markets with significant opportunities. As a result, we are continually working to identify sectors where Canadian companies with unique capabilities can make an impact on the world stage such as the aerospace sector, and other sectors with high growth prospects, such as agriculture, oceans and life sciences, all identified as GMAP priority sectors.

For example, clean technology (cleantech) is a particularly fast-growing sector focused on developing technologies that reduce negative environmental impacts and allow for a more efficient use of the earth's resources. Serving as a prototype, our approach to this sector does not focus on the quantity of transactions. Rather, we focus on those companies with the highest potential for growth, and aim to support them with a mix of products that fill certain market gaps in order to move these companies towards market acceptance.

**Aerospace:** The aerospace sector is a significant contributor to Canada's economy. In past Corporate Plans, we noted that we are preparing to provide buyer financing for the early years of the CSeries, a pivotal, industry-shaping technology for the Canadian aerospace sector and its largest exporter, Bombardier Inc. The CSeries is currently slated for first delivery in 2015.

An important area of focus for us over the next five years will be on the Canadian companies across Canada that are supplying goods, services, and know-how to the CSeries, as well as other next-generation aircraft platforms. We will target these suppliers, primarily SMEs, and ensure that they have access to the working capital and risk mitigation tools they need to be successful.

In addition, throughout the planning period, we will also focus on sectors where we see high potential for Canadian expertise such as Oceans, Life Sciences and Agriculture.

**Oceans:** The oceans sector includes a broad range of enterprises such as defence and security, weather and climate forecasting, and off-shore oil and gas. With the global market estimated at \$3 trillion annually, we see significant opportunities to grow Canada's international presence in this area. Given the export content of the final product, we provide financial services to Canadian suppliers of large off-shore oil projects, such as the Hebron and White Rose oil platforms. These platforms currently count nearly 1,100 direct and indirect suppliers.



In 2013, Ontario's Northland Power became the majority stake holder of the world's second largest wind farm, Project Gemini. Located in the North Sea off the coast of the Netherlands, Gemini's wind turbines will provide enough clean energy to supply the needs of 1.5 million people a year, while reducing 1.25M tons of CO<sub>2</sub> emissions a year. EDC was able to help Northland secure a 60% stake in the multi-national project, by providing € 125 million in financing, the largest loan EDC has ever provided in the wind power sector. Canadian cleantech revenues are expected to reach \$60 billion in the next 10 years, and Northland is well-positioned to benefit from this growth. Moving forward, the company plans to expand further into Latin America and Northern Europe.

**Life Sciences:** Aging populations around the world and growing middle classes in emerging markets have brought with them a higher demand for life sciences and health technologies. Canada has one of the largest life science industries in the world with some 1,500 firms, many of whom are export-ready. Right now, the fastest growing emerging markets, including China and India, import more than half of their medical devices. To help Canadian companies take advantage of these opportunities, we will work closely with government, industry and market-specific associations to create business matches with promising foreign enterprises.

**Agriculture:** Global demand for more and better-quality food is also soaring due to middle class expansion in emerging markets. Canada's abundant land and water, world-class agricultural equipment and technologies, and reputation for safe, high-quality food anchor the ability of Canadian companies to meet these needs. Furthermore, more than 90% of agriculture, processing and food retailing companies are small. As such, we are positioning ourselves to serve SMEs in this sector.

To support this sector, we will promote our Export Guarantee Product to SMEs. EDC equity investments in funds are another means of supporting small, high-growth firms with innovative technologies in this growing sector.

Another area of focus for us is the Canadian aquaculture industry, which has grown in recent years. We will be reaching out to stakeholders to increase our understanding of the dynamics of the industry and determine the best ways to support companies in this sector.

## SUPPORTING CANADIAN DIRECT INVESTMENT ABROAD

More and more Canadian companies are investing in foreign affiliates to better respond to the needs of their regional customers. We estimate that one in 10 SME exporters currently have some form of physical presence overseas, such as a plant, warehouse or sales office.<sup>1</sup>

There are multiple benefits to making these foreign investments, including increasing access to key customers and markets, more cost-effective production facilities, and new partnerships through global and regional supply chain networks, as well as emerging labour issues around the world.

In 2013, we facilitated \$6.6 billion of CDIA-related business, primarily through loans to help companies open facilities in new markets or participate in joint ventures, and credit insurance for sales by foreign affiliates of Canadian companies. As noted in the Planning Environment, we expect that CDIA activity will increase beyond its recent pace throughout the planning period. We recognize the need to respond to this continuing growth with flexible solutions to meet evolving customer needs. To that end, we are preparing for the potential of increased financing activity, additional requests for insurance coverage, and will continue to explore ways to meet SME needs in this space with targeted activities.

<sup>1</sup> Estimate based on EDC's Trade Confidence Index Survey, conducted during the Spring and in the Fall of 2012



Acadian Seaplants is a Nova Scotia company which has grown to become a world leader in seaweed harvesting for use in food, animal feed, and medicinal products. With 320 employees, in the last decade Acadian has expanded their business so that they are now exporting to more than 80 countries. A client with EDC for six years Acadian has made use of a range of products including our Export Guarantee Program, allowing them to bring their food products to Japan, as well as financing for their recent Canadian Direct Investment Abroad for the purchase of Ireland's state-owned seaweed harvesting firm Amara Teoranta. This purchase will allow Acadian to expand their supply worldwide, and grow their R&D capacity.

## OBJECTIVE 3: INCREASE TRADE DIVERSIFICATION

We will help Canadian companies expand beyond traditional markets.

The third objective is to increase trade diversification among Canadian exporters. In order to do so, we will leverage our knowledge on international trade issues and opportunities, as well as our connections with foreign buyers, for the benefit of Canadian companies seeking new opportunities. EDC is committed to increasing Canadian companies' presence in GMAP priority markets in particular.

### TRADE DIVERSIFICATION – INCREASING CANADA'S PRESENCE IN NEW MARKETS

Making the first sale in a new market is a challenging proposition for most Canadian companies, whether it is a sale to a buyer in the United States, or further abroad. In order to be successful in a competitive trade economy, Canadian companies must continue to look for new opportunities; whether in developed markets, or high-growth emerging markets.

The U.S. is often seen as a springboard to diversification for exporters. Many businesses embrace the strategy of exporting to the U.S. market first, and then once they have established a successful exporting operation there, are able to move further afield. The U.S. can be an important first step for Canadian businesses, and SMEs in particular, to gain access to the supply chains of large multinational corporations and eventually move their products overseas through these channels.

We continue to support business in the U.S. and recognize the importance of this market as a stepping stone for Canadian exporters. As noted in the Planning Environment, as the U.S. benefits from renewed growth, it is an important time to gain further access for Canadian companies in this market. Over the planning period we will increase the number of pull transactions in the U.S. to increase opportunities for Canadian SMEs. We will also focus on key U.S. growth sectors, such as oil and gas and petrochemicals.

Our strategy to increase trade diversification over the planning period has both a developed markets and an emerging markets component. Emerging markets have been the centerpiece of our business strategy for a number of years and will continue to be a priority. To round out our strategy in international markets, we are implementing a full developed markets strategy as well.

#### *Developed Markets*

We will build awareness of opportunities and increasing trade to Europe and developed Asia, Australia, Japan and South Korea and ensure we are providing full support for our customers in these markets.

**Europe:** In 2013, the Government of Canada reached an agreement in principle with the European Union on the Comprehensive Economic and Trade Agreement (CETA). This agreement will eliminate tariffs and create new opportunities for Canadian companies in the European Union's 28 member states. We work collaboratively with the TCS in this region, including through our representation in Germany, to support Canadian businesses.

We plan to focus on three priority sectors where Canadian companies will have increased access as a result of CETA. These sectors are the automotive industry, information and communications technology, and advanced manufacturing, including infrastructure.

**Developed Asia:** South Korea is already Canada's third-largest trading partner in Asia and the Canada-Korea Free Trade Agreement should result in new access for Canadian exporters to the fourth largest Asian economy. Canadian negotiators have since turned their attention to Japan, Canada's fourth-largest export market and the biggest Asian investor in Canada and we expect more opportunities for Canadian companies to grow in this market. Furthermore, Australia offers a variety of opportunities for Canadian exporters and is a market that has become a growing destination for Canadian investment.

Our strategy in these markets is to build relationships with multinational corporations in key sectors. The extractive and infrastructure sectors will be areas of focus in Australia, while in Japan and South Korea there are opportunities to integrate with global supply chains.

### *Emerging and Frontier Markets*

While emerging market growth has slowed in some areas, the outlook for growth still exceeds most developed markets. As noted in the planning environment, rapidly increasing middle-class populations in these regions is creating an abundance of new consumers that now have the income to purchase a variety of higher quality goods and services. Increased urbanization in these regions has also resulted in dramatic infrastructure deficits, another area of Canadian expertise.

Further ahead, we see many opportunities in frontier markets such as Africa and emerging Asia. Currently, many of these regions have existing gaps in coverage for Canadian companies. As such, we will continue to focus on providing support in these markets and strive to be present in advance of Canadian demand in order to establish connections and pave the way for exporters to gain access. Pull transactions<sup>2</sup> and match-making initiatives<sup>3</sup> will play a key role in this strategy. We highlight opportunities in India and Africa below, but our emerging market strategy also focuses on other regions of growing importance such as Latin America and the ASEAN region.

**India:** As noted in the Planning Environment, there continues to be significant opportunities for Canadian companies within the Indian economy. In order to assist exporters to take advantage of these opportunities, three years ago we placed a greater emphasis on supporting business in the country by developing relationships with Indian businesses with the goal of connecting them with Canadian companies. In this market we support Canadian businesses primarily through our financing products, including corporate lending, equity and project finance.

We have seen great success leveraging our equity relationships to make connections between large Indian corporations and Canadian SMEs. In fact, the majority of our Connect strategy<sup>4</sup> successes have been helping SMEs to obtain a sale within India. This is an area where we will continue to focus our efforts moving forward, to increase Canadian exporters' access to the market.

2 A pull facility is when EDC makes a financing commitment to a foreign buyer, which is then leveraged to influence the foreign buyer to procure from Canadian suppliers.

3 EDC arranges formal and informal activities for Canadian companies in order to match Canadian capabilities with the needs of foreign buyers and expand overseas.

4 The Connect strategy introduces potential Canadian customers to procurement opportunities by using the relationships, networks and knowledge we gain through the equity investments that EDC makes.

**Africa:** The size of the African economy has more than tripled since 2000 and now contains seven of the 10 fastest growing global economies. We expect this growth to continue, making Africa a significant opportunity for Canadian exporters.

The opening of our South Africa representation in 2015 is an important piece of our emerging markets strategy. Foreign representations are critical to our success with customers, as they allow us to reach across geographic boundaries, identify trends and related trade opportunities, and act as a means to bring buyer needs together with Canadian capabilities.

Over the next few years, we will significantly increase the level of engagement with stakeholders, partners and associations in Africa. We will collaborate with local and international partners and work to add additional pull and protocol<sup>5</sup> relationships with targeted African corporations, in addition to further Equity Fund commitments and associated connect activities. Partnering with these organizations will help us to manage risks, including corporate social responsibility risks.

A key element of our success in the region, and in all of our global representations, is our relationship with the Government of Canada's Trade Commissioner Service (TCS). An increase in proximity will allow us to work closely with the TCS through participation in various activities including tradeshows, conferences, matchmaking events and trade missions, all with the goal of providing support to Canadian companies interested in getting engaged in the region.

## MAKING CONNECTIONS AND SHARING KNOWLEDGE

Critical to Canada's trade success is the ability for Canadian companies, particularly SMEs, to make a connection with international buyers. For several years, one of our strategies has been to facilitate these connections. To do this, we implemented a number of activities with the same goal: to introduce Canadian businesses to potential new buyers in foreign markets. These activities include our pull facilities, match-making events, our connect strategy in the equity program, and protocols.

We also recognize that there is an opportunity to further enhance our services in this area. To that end, we plan to improve on our ability to capture and document Canadian capabilities and identify procurement opportunities with foreign buyers in order to connect Canadian companies to these prospects.

Working alongside the Trade Commissioner Service, our network of foreign representations helps deepen relationships with local buyers and borrowers, and provides market intelligence to Canadian exporters and investors. Understanding the needs of local buyers helps us to identify opportunities for Canadian businesses.

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<sup>5</sup> Protocols provide financing support to multinationals in international transactions with the goal of encouraging them to procure from Canada, as well as increase Canadian R&D expenditures and Canadian investment levels

2003 – 2013



2013



### *Targeted Financing (Pull) Facilities*

Many Canadian companies, particularly SMEs, do not have the size or connections to be included in the procurement plans of large foreign buyers. As noted, a pull facility is when EDC makes a financing commitment to a foreign buyer in advance of any Canadian contract, and then leverages the relationships established by the loan to convince the foreign buyer to procure from Canadian suppliers. This is particularly relevant in GMAP-identified priority markets where future opportunities exist, but Canada is traditionally not as well-known, and there is low penetration or awareness of Canadian capabilities.

Since the introduction in 2003, our pull loans have assisted several thousand Canadian exporters, 93 per cent of which were SMEs. The graphic on the opposite page highlights the benefits of these transactions.

In 2014 we concluded the successful first phase of a pilot project of 10 pull transactions in partnership with the TCS. As part of the pilot program, participating Trade Commissioners and EDC in-market representatives engaged in joint outreach activities with the pull borrowers to better understand the buyers' procurement needs and capital expenditure plans. The increased access to each other's network of contacts meant that more Canadian companies were introduced to opportunities overseas. Based on this success, EDC and the TCS have expanded the project to additional pull buyers. We intend to target opportunities that are multi-sectoral or in frontier markets and align with the GMAP priority sectors.

We will continue to reach out to large international organizations and create new opportunities for Canadian businesses as we introduce them to supply chains in new markets around the world. We also plan to do more to build networks and create awareness of Canadian capabilities with existing pull transaction organizations to position a higher number of Canadian SMEs as potential suppliers.

### *Connect Strategy*

Through our international network of private equity fund investments we help Canadian SMEs access local business opportunities, market channels, knowledge, partners and relationships in key emerging markets. We refer to these activities as our connect strategy. Since 2010, Canadian companies benefitting from the strategy have entered into more than 75 new business partnerships in emerging markets.

Many regions in the Middle East have committed to reducing consumption of resources. Quebec-based industrial water filtration company, Sonitec, produces cooling towers and micro-sand filtration technology that uses 80 per cent less water to filter than other technologies, reduces energy consumption and the use of chemicals by 20 per cent and minimizes the maintenance requirements on HVAC equipment. In addition to the financial support that we provided to the company, EDC was able to introduce Sonitec to senior executives from several large Middle Eastern companies, including Emirates Aluminum (EMAL), a leading global metal supplier. As a result of this introduction, Sonitec was added to EMAL's qualified suppliers list, a critical step toward winning future business.



### *Protocols*

Foreign multinationals with operations in Canada provide an important contribution to Canada's economy. The multinational's activities in Canada will often be part of the company's overall value chain. Foreign multinationals present in Canada often also have strong export levels and their parent or non-Canadian affiliates may source goods and services from Canadian companies, which constitute additional export trade from Canada.

To encourage this trade and to bring global supply chains closer to Canadian companies, we undertake agreements – or Protocols – with foreign multinationals. Under these Protocols, we provide uncommitted financing capacity that can be used to support international transactions for these multinationals with the goal of influencing them to procure from Canada, as well as maintain and increase their Canadian R&D expenditures and Canadian investment levels.

### *Match-making*

The matching of Canadian capabilities with the needs of foreign buyers is a central way in which we help Canadian companies expand overseas. We conduct match-making activities to maximize the opportunities arising from our existing Pull facilities and Protocol arrangements – although many connections are also made between Canadian companies and foreign buyers outside of these arrangements. In order to succeed, we rely on the knowledge of key partners, such as the TCS, to match Canadian capabilities with foreign buyers.

Matchmaking can take many different forms, both formal and informal. It often involves a brief one-on-one meeting between a Canadian exporter and a foreign buyer. But it also takes many other shapes. We set up events that bring groups of Canadian and foreign companies with common interests together, both in Canada and abroad. This can be done at trade shows, through in-market missions, or by arranging cross-Canada visits for foreign firms to meet potential Canadian suppliers.

In 2013, 25 pull-related match-making sessions were held with 233 introductions made between foreign buyers and Canadian suppliers.

## 2.6 CORPORATE PRINCIPLES

We adhere to two overarching principles while conducting our business: our Partnership Preferred Philosophy and Corporate Social Responsibility. These two principles are foundational to what we do and guide our actions as we conduct business both in Canada and abroad.

### PARTNERSHIP PREFERRED PHILOSOPHY

We work with a variety of private sector partners for the benefit of our customers. This allows us to combine the expertise and risk capacity of EDC with that of the private sector to expand EDC's flexibility and reach to have a greater impact on more Canadian businesses. In 2013, 90 per cent of our financing transactions were done in partnership with private sector financial institutions.

That said, we will operate without partners when it is in the best interest of our customers, by providing financing and insurance solutions when gaps exist or private sector capacity or risk appetite is limited. Examples include transactions with longer tenors in specific sectors, and financial solutions for “breakthrough” companies such as cleantech companies or small businesses. We do this with the expectation that our involvement will pave the way for future private sector involvement and we strive to create the conditions to facilitate this.

### COMPLEMENTARITY WITH BDC

Partnerships are also an important part of our service to small business and we have been working diligently to further our relationship with BDC. As part of our protocol with BDC we have a referral program in place to ensure that customers receive the right solutions for their needs. Collaboration between the two organizations has also moved beyond referrals to joint events, learning sessions, and regular senior level discussions. We are also working jointly on aerospace and ICT outreach programs with mutual clients and partners. We believe that by working closely with BDC, we can jointly create more positive results for SMEs.

### CORPORATE SOCIAL RESPONSIBILITY

We meet our international obligations and the expectations of Canadians to act as a good corporate citizen, while ensuring that Canadian businesses continue to succeed internationally.

### OECD GUIDELINES FOR MULTINATIONAL ENTERPRISES

The OECD Guidelines for Multinational Enterprises (“the Guidelines”) provide guidance on responsible business conduct and are relevant to many of our larger clients. We promote the Guidelines to clients through our website and through dialogue with our clients. In addition, our Environmental and Social Risk Management Policy references the guidelines as a corporate social responsibility (CSR) standard that is considered in our assessment of transactions in those cases where a client has made a commitment to use that guideline.

The issues covered in the Guidelines, such as environmental and social impacts, anti-corruption and anti-bribery efforts, and human rights are also included in our transaction reviews when relevant. In undertaking transaction reviews, we consider any statements or reports made publicly available, consistent with our commitments under the OECD Common Approaches, a set of recommendations adopted by the OECD council. In 2015, we will work with DFATD to continue to promote the Guidelines and encourage their practical application with customers and business associations.

## ANTI-CORRUPTION AND BRIBERY

We are subject to legal obligations to ensure that we do not support international activities that are connected to corruption and bribery. To do so, we follow best practices and also coordinate with partners in the Government of Canada, including DFATD and the Canadian Commercial Corporation, to ensure alignment in our approach to companies that face allegations. Our aim is to confirm that these practices reflect fair treatment for companies while ensuring anti-corruption obligations and public expectations are met. In the year ahead, we will continue to deepen this collaboration within the inter-governmental community. We will also continue to strengthen our own anti-corruption practices.

## ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

We are committed to robust environmental and social risk management processes and standards, including the Equator Principles (EP) and the IFC Performance Standards. The EPs are based on the International Finance Corporation's Performance Standards on Environmental and Social Sustainability. Since 2011, we have been a member of the EP Steering Committee, contributing to the strategic direction of the EPs and continuing to play an active role in working groups to more closely align the practices of the financial sector and export credit agencies to ensure a level playing field for Canadian exporters and investors.

In June 2014, the Office of the Auditor General completed its Environmental Review of EDC. Overall, the findings of the review were positive, and they also present an opportunity for us to further enhance certain of our review processes. In 2014, we initiated diagnostics on our processes in the areas that were highlighted as recommendations. We will continue with implementation of the recommendations in 2015.

## CSR ADVISORY COUNCIL

In 2014, we reaffirmed our commitment to the Advisory Council on CSR. Initially created in 2001, the Council serves as a sounding board on CSR practices for EDC's senior management, and a forum to identify emerging CSR trends and opportunities. For example, the Council played a key role in initiating the process for EDC's first Green Bond. The Council is comprised of members with expertise in environment, human rights, labour, stakeholder engagement, community investment, and other areas relevant to CSR.

## SUPPORT FOR CLIMATE CHANGES INITIATIVES

EDC is working closely with members of the Canadian Delegation to the OECD to support continuing discussions on the role of ECAs in relation to addressing climate change. In addition, last year, EDC launched its first Green Bond, one example of an innovation in carbon finance.

## CSR AND SMES

In 2015, our customer-focused CSR outreach will complement our business development strategy by developing tools that offer small and medium-size enterprises help to manage the CSR risks in doing business internationally. These tools will include a self-assessment checklist to help exporters determine their export-readiness on issues such as CSR, and helpful resources where customers can get additional assistance. A series of CSR webinars will also be offered through industry associations.

## 2.7 A TOOL IN SUPPORT OF PUBLIC POLICY

EDC is an important contributor to the Government of Canada's agenda to advance Canadian commercial interests around the world. The support we provide Canadian businesses helps them to achieve success overseas. In 2013 our work helped generate almost \$62 billion of Canada's GDP – more than 4 cents of every dollar.

We play a key role in delivering on the Government's Global Markets Action Plan, including the goal to increase the number of SMEs active in emerging markets.

EDC is committed to the supporting the priorities outlined in the Minister of International Trade's Statement of Priorities and Accountabilities letter.

## DEFENCE PROCUREMENT STRATEGY

In 2014, the Government of Canada unveiled its Defence Procurement Strategy (DPS) along with an export strategy in support of the DPS. As a result, we have been collaborating with the Canadian Commercial Corporation (CCC), the Canadian Association of Defence and Security Industries (CADSI), and Regional Development Agencies to map and better understand the supply chain in this sector to find new opportunities for Canadian companies. We will continue the work that started in 2014 to deliver on the export strategy to ensure the success of this sector. We plan to collaborate with other crowns and departments on initiatives, where possible, to best serve Canadian exporters in this sector.

## 2.8 HOW WE DELIVER ON OUR OBJECTIVES

For us to achieve benefits for Canadian businesses, and to contribute significantly to the Government of Canada's trade agenda, we have in place robust practices for operational management and sustainability that are in alignment with the private sector. These include financial sustainability, risk management and human resources. We ensure that these practices are aligned with the Government of Canada. We work to ensure that we follow best practices in all of these areas, and look for ways to create additional efficiency and value for the Corporation.

### FINANCIAL SUSTAINABILITY

We are committed to remaining financially self-sustaining. Financial sustainability is critical to enable EDC to support companies throughout the global business cycle – especially in challenging times.

Our commitment to financial sustainability means we must be able to remain solvent under stressed scenarios, keep a well-capitalized balance sheet and adequate liquidity to meet our financial commitments and have sufficient reserves against future losses. We must also adhere to annual expense and capital budgets, generate an adequate productivity ratio and deliver timely, accurate and informative financial information.

Financial Sustainability is discussed in further detail in Chapter 3. The Financial Plan provides details on the key business assumptions which underlay our projected financial performance. Chapter 3 includes Statements of Comprehensive Income, Statements of Financial Position, Statement of Changes in Equity, Statements of Cash Flows and planned capital expenditures for 2015-2019.

### PRODUCTIVITY RATIO

A key component of our efforts to maintain financial sustainability is our productivity ratio, a performance indicator that measures our expenses in relation to our earnings.

Our commitment is to adhere to the government-wide cost containment initiative through the management of our productivity ratio. Under the guidance of our board of directors, we establish an appropriate target for the productivity ratio, and the board also reviews and approves our administrative and capital expenditure plans each year. Historically we have targeted a productivity ratio of 25 per cent, and operated within a range of 24-26 per cent. The productivity ratio target ensures a disciplined approach to running our business while also enabling the flexibility needed to respond to the needs of Canadian exporters and changes in our operating environment. We leverage our business model and other delivery channels to keep this ratio low, while still delivering for exporters.

In 2015 we will establish a target range of 25 per cent to 28 per cent for the productivity ratio to take into account the structural change resulting from our recent and expected future large dividend payments as well as other factors in our operating environment, which have evolved since the current range was set. These factors include initiatives outlined by the Minister of Trade in our annual Statement of Priorities and Accountabilities that will result in increased investments for the organization. Chapter 3 provides additional information on the rationale for the adjustment to the range.

As is currently the case, we use a range rather than a precise number because we want to take a long term view of our operations. For example, our insurance systems transformations and our investment in raising awareness of EDC products and services will not have an immediate financial payoff in 2015. However, we believe that over the long run, these investments will yield a return both in terms of our financial performance and the value that we bring to Canadian exporters.

#### CAPITAL ADEQUACY POLICY (CAP)

We efficiently manage our capital, through our Board-approved CAP, in order to be able to meet the demands of our current and future business while maintaining our ability to withstand future, unpredictable risks. Chapter 3 provides additional detail on this policy.

### RISK MANAGEMENT

Our business activities expose us to a wide variety of risks, and an unpredictable planning environment requires us to exercise prudent risk management in order to remain flexible during volatile times.

Effective Enterprise Risk Management (ERM) is critical to ensuring we will be a sustainable organization for years to come and have the capacity to support Canada's ambitious trade goals. With this in mind, we have designed and are building out an ERM Framework to augment our existing governance practices and risk management foundation by quantifying and understanding risks.

The ERM framework emphasizes and balances a strong culture of oversight and control with clear accountability for, and ownership of, risk at the corporate level and within each business unit. The framework is enterprise-wide, articulates our Risk Appetite and covers three broad categories: strategic, financial and operational risk. Communication and informative reporting is a key element. As well, the framework calls for the establishment and implementation of disciplined and documented risk management processes and controls to instill sound decision-making around seizing opportunities in pursuit of our business objectives while adhering to our Risk Appetite. As an independent voice, Internal Audit is responsible for assessing the efficacy of the framework design and implementation.

## HUMAN RESOURCES

In order for EDC to be the go-to solutions provider for exporters over the long term, we need the right people. To do this, we must maintain a compelling employee value proposition that responds to our need to attract such talent. We must also make sure that our workforce is set up to succeed in the future. Our commitment to these goals is achieved in part through performance management and accountability.

The 2013 report by the Prime Minister’s Advisory Committee on the Public Service noted that, “Canadians expect government to be as effective and responsive as the best corporations in the private sector.” The report called for an employment model that focused on delivering high-quality, cost-effective services through a focus on performance management, a total compensation package that is in line with the private sector, adequate technology to work effectively, and accountability.

Over the past few years, we have evolved many of our own human resources practices to ensure alignment to that model, implementing the best practices of the private sector and mirroring many of the proposed reforms in the federal public service human resources framework.

To date, some of the changes we have implemented include introducing controls for validating sick leave and closing our defined benefit pension plan to new employees and introducing a defined contribution pension plan to significantly reduce volatility, cost and overall risk to the corporation. We also continue an annual benchmarking exercise to ensure our compensation is in line with both our public and private sector comparators, and ensuring a robust performance management system that makes employees and leaders accountable for delivering results.

Our human resources strategy is critical to the success of our business strategy. Without the right people in our organization, we will not be able to deliver on our ambitious agenda for supporting Canadian exporters. As a result, we are continually looking to improve our human resources activities. The sections below outline our planned activities.

### TALENT MANAGEMENT AND SUCCESSION PLANNING

Attracting and retaining a highly skilled talent pool is critical for the ongoing success of the organization and a necessity to deliver on our commitments to Canadian businesses.

To do this, we continue to review the efficacy of our talent management process to assess potential risks related to leadership succession planning. To mitigate risks, we will ensure that our talent review process is being used effectively to identify technical experts, future leaders, core contributors as well as performance issues to be managed. We will ensure the successful transition of qualified candidates to leadership roles through a new Emerging Leader development program. We will also continue to have well-defined performance plans in place for everyone in the organization to ensure they have accountability for the organization’s objectives and to support our robust performance management practices.

As part of our performance management system, we have an expectation that our yearly review process will result in a normal distribution of performance ratings across our rating scale, in alignment with the Conference Board of Canada performance distribution curve guidelines.

## DIVERSITY PLAN

Having a representative workforce is a strategic business advantage – critical to our success now and in the future. We are continuing to invest in our workforce to attract, develop and retain diverse talent and provide value for our customers. We have in place a diversity and inclusion action plan that is our roadmap for increasing the diversity of our workforce and measuring our progress. Over the planning period, we will focus on increasing the participation of women in leadership and increased representation of visible minorities.

## BILINGUALISM

Increasing the bilingual capacity for the leadership group is a corporate priority. The year-end bilingualism target of 65% for leaders was achieved in April, 2014. This target will be revisited and increased in each year of the planning period.

## EDC WAY MANAGEMENT SYSTEMS

We are focused on continually improving performance and productivity across the corporation. To achieve productivity gains and operate as a high performing organization, we have implemented a cultural transformation known as “The EDC Way,” that is focused on achieving better execution.

“The EDC Way” drives principles and behaviours that we value as an organization and provides the foundation for how we work. The management systems we have put in place to support this cultural change help us achieve success by ensuring that our goals are clearly communicated to every individual in the organization, by visually measuring our performance against these goals, and by embedding a culture of day-to-day continuous improvement such that every employee is empowered to improve their work for the benefit of our customers. We will continue to monitor and measure the success of these activities over the planning period.

## 2.9 MEASURING SUCCESS: SCORECARD

Our 2015 scorecard drives our behaviours and contributes to the achievement of the objectives laid out in the plan.

### NET PROMOTER SCORE

The Net Promoter Score (NPS) is the measure against which we evaluate our customers' satisfaction and loyalty. NPS measures the likelihood that our customers would recommend EDC to business colleagues.

We expect that our 2014 NPS will end the year around 74.7 as a result of our increased focus on customer experience during the past 12 months and the resulting process improvements that we have implemented. As a result, for 2015 we will be increasing the NPS range in our scorecard to 70.0 – 76.0.

### TOTAL BUSINESS FACILITATED

This measure provides an order of magnitude of the business Canadian companies carry out with the help of our solutions. We expect our business facilitated in 2015 to grow between 0 and 3 per cent. There are two main assumptions that will drive this forecasted growth. First, the Canadian dollar being below parity with the US dollar, which should provide a more competitive environment for exporters. Second, as noted in the Planning Environment, strong US and emerging market growth in 2015 will favourably impact exporters.

### BUSINESS IN EMERGING MARKETS (BEM)

To provide a more complete picture of the value we deliver to Canadian companies in emerging markets, in 2013 we introduced revenue as the base for measuring our activity in these markets.

Revenue is a comparable measure of value across our insurance and financing programs, therefore providing a more balanced view of our business. Revenue derived from all programs count towards BEM and is defined as the accounting revenue reported on the income statement earned during the calendar year through premiums, fees and interest on transactions in emerging markets.

At the end of 2014 we expect to see growth in BEM of 13 per cent, primarily as a result of significant growth in our emerging market loan book that provides a larger base for income generation. In 2015 we expect growth in BEM to be in the 5 to 10 per cent range, in large part due to FX and LIBOR rate assumptions included in Chapter 3, as well as modest growth in loan volumes in emerging markets.

## CANADIAN DIRECT INVESTMENT ABROAD (CDIA) TRANSACTIONS

CDIA continues to be critical to the health of the Canadian economy, and supporting CDIA transactions has become an integral part of our core business.

In 2015 we expect growth in the range of 0 to 4 per cent. A softer demand for financing and strong bank liquidity will impact demand for EDC support.

## PARTNERSHIP TRANSACTIONS

Our ability to serve Canadian companies is enhanced by partnering with both public and private sector players and leveraging their skills and knowledge

By the end of 2014 we expect that partnership transactions will have increased by 5 to 7 per cent, due to our banking partners seeking EDC support to provide them with additional capacity. This is a trend we expect to continue into 2015, as we are forecasting a growth range of 0 to 3 per cent.

## SMALL AND MEDIUM SIZED BUSINESS TRANSACTIONS

Since 2012 we have placed a strong emphasis on supporting small and medium sized exporters in both developed and emerging markets. To ensure we focus on this segment of exporters, in 2013 we introduced a “Small Business Transactions” measure, which encompasses all transactions related to small business exporters over the course of the year.

For 2014, we expect to finish the year with growth in the 0 to 1 per cent range. This level of growth is below our target as a result of reduced growth in Accounts Receivable Insurance, increased offerings from private sector insurers and a continued reliance on self-insurance. As well, EDC is still encountering awareness challenges in the small business space – many companies have either no knowledge, or a one-product awareness about EDC which results in fewer opportunities and is an issue we are aiming to address further in 2015.

Given the Government of Canada’s focus on SMEs and in order to align with the GMAP, in 2015 we are broadening the definition of this measure so that it encompasses SMEs and not just small business. We expect to see growth in the range of 0 to 5 per cent for this measure. This growth will be driven in part by our launch of Trade Protect, the new online credit insurance product.

## NUMBER OF SMALL AND MEDIUM SIZED CUSTOMERS SERVED IN EMERGING MARKETS

We are introducing a measure for 2015 to track the number of SMEs we serve in emerging markets. This measure will allow us to track our contribution to the GMAP goal of increasing the number of SMEs active in emerging markets.

## PRODUCTIVITY RATIO

Our Productivity Ratio captures, in aggregate form, how well we use our resources. It is the ratio of administrative expenses to net revenue, excluding debt relief. Historically, we worked to ensure our productivity ratio remains between 24 and 26 per cent.

In 2015 we will be adjusting our range to 25 to 28 per cent. Chapter 3 provides further detail on the change in our Productivity Ratio range.

Performance Measures	2013 Actual (Baseline)	2014 Plan	2014 Forecast	2015 Plan
Net Promoter Score	70.5	67.0 – 73.0	73.0	70.0 – 76.0
Total Business Facilitated (\$B)	95.4	0 – 3% growth (98.3)	97,325 (2% yoy growth)	0 – 3% growth
Business in Emerging Markets (\$M)	528	0 – 3% growth (543.8)	595 (12.7% yoy growth)	5 – 10% growth
CDIA Transactions	333	0 – 3% growth (343)	352 (5.7% yoy growth)	0 – 4% growth
Partnership Transactions	3,655	0 – 3% growth (3,765)	3,914 (7% yoy growth)	0 – 3% growth
Small Business Transactions	2,639	0 – 3% growth (2,718)	2,639 (0% yoy growth)	
Small and Medium Sized Business Transactions			n/a	0 – 5% growth
Number of small and medium-sized customers Served in Emerging Markets	1,733		2,000	2,400
Productivity Ratio	22.7	24 – 26	23.8	25 – 28

# CHAPTER 3: EDC'S FINANCIAL PLAN

## INTRODUCTION

Key items to highlight in the Financial Plan are as follows:

- Net income is projected to be \$1,030 million in 2014 and then is expected to be within the \$600 to \$800 million range between 2015 and 2019.
- Based on our current dividend methodology we are projecting that our 2014 financial results will result in a dividend payment of \$1.3 billion in 2015.
- Our commitment to controlling administrative expenses is carried out through the management of our productivity ratio. This ratio measures administrative expenses as a percentage of our operating income. We continue to target a productivity ratio of 24-26% in 2015 although we anticipate the ratio rising to the upper end of the range due to several factors:
  - We are undergoing a large scale transformation effort to replace and enhance our credit insurance systems, especially in support of Canadian small and medium-sized businesses. This work requires additional capital funding over and above our normal on-going operating costs;
  - We are increasing our investment in promotional activities in an effort to raise awareness and understanding among Canadian exporters – especially among small businesses – of the benefits of trade and the EDC tools available to them, in line with the objectives of the Government's Global Markets Action Plan;
  - The discount rate used to value our pension obligation is currently lower than at December 31, 2013. If it remains lower at the end of 2014, our pension costs will increase in 2015; and
  - We continue to build out our enterprise risk management framework including the development of a more robust compliance function.
- We are projecting the productivity ratio to be outside the 24-26% range for 2016 to 2019. Large dividend payments throughout the Corporate Plan period will result in an increase in interest expense as these payments are funded with debt. In 2015 we will change the range for the productivity ratio given the impact of the dividend policy and the greater focus on services to SMEs.
- As a part of our mandate, we generally take on more risk than a typical financial institution. We take on larger single counterparty exposures and larger concentration exposures by industry sector, most notably in the transportation and extractive sectors exposing us to large potential losses.

In the Financial Plan, we will first present the key business assumptions which were used to derive our projected financial results, followed by a discussion of our projected operating expenses and planned capital expenditures. Projected financial statements and a discussion of our capital management and the statutory limits by which we must manage our organization are also included.

## 3.1 KEY BUSINESS ASSUMPTIONS

A series of key assumptions, including business facilitated, risk profile of business facilitated, foreign exchange and interest rates, all of which have an impact on our business activity and financial performance, drive the Financial Plan. Using these assumptions, which align with our business strategy and economic outlook, projected financial statements are developed for the planning period, including a forecast to the end of the current fiscal year. Any changes to our business strategy or to the underlying assumptions may materially affect the projections over the planning period.

### BUSINESS FACILITATED

The level of business facilitated for each program is presented in the table below.

Table 1: Projected Level of Business Facilitated (2013-2019)

<i>(in millions of Canadian dollars)</i>	2013 Actual	2014 Plan	2014 Fcst	2015 Plan	2016 Proj	2017 Proj	2018 Proj	2019 Proj
<b>Business Facilitated</b>								
Direct lending	14,928	12,600	13,800	15,200	17,300	19,200	19,800	20,600
Project finance	2,352	2,000	2,500	2,700	2,900	2,900	3,000	3,100
Loan guarantees	851	800	700	800	800	800	900	900
Investments	217	200	225	250	250	275	275	275
Total financing and investments	18,348	15,600	17,225	18,950	21,250	23,175	23,975	24,875
Credit insurance	56,224	55,000	57,000	58,700	60,700	62,800	65,000	67,000
Financial institutions insurance	10,630	8,600	12,700	11,900	12,300	12,800	13,200	13,600
Contract insurance and bonding	7,467	6,000	7,500	7,700	8,000	8,200	8,500	8,800
Political risk insurance	2,743	2,700	2,900	2,900	3,000	3,000	3,100	3,200
	95,412	87,900	97,325	100,150	105,250	109,975	113,775	117,475

### 2014 FORECAST

The 2014 financing business facilitated is projected to increase by \$1.6 billion over the Corporate Plan primarily due to a favourable foreign exchange impact as a result of the weakening of the Canadian dollar in relation to the U.S. dollar, the currency in which the majority of our loans are denominated.

Forecast business facilitated for our insurance offerings has increased \$7.8 billion from the 2014 Plan. Our financial institutions program has increased by \$4.1 billion due to an increase in demand in major markets, particularly China, Brazil and Turkey. Our credit insurance program has increased by \$2 billion mainly due to two new large policies. As well, the insurance programs are experiencing a favourable foreign exchange impact due to the weakening of the Canadian dollar.

## 2015 PLAN

Growth in Canadian exports is anticipated; however, our credit insurance program will experience a lower level of growth due in large part to favourable market conditions that result in an increase in private sector capacity and customers that choose to self-insure. We are also projecting growth of \$1.7 billion in financing as economic conditions continue to strengthen.

## 2016-2019 PROJECTIONS

We are projecting our financing program to grow in the range of 3% to 12% between 2016 and 2019. The variability relates to the financing of the C Series program which begins to ramp up in 2016. Our insurance programs are forecast to grow at 3.5% per year from 2016 to 2018 with the exception of our political risk insurance program which is projected to grow 2.5% per year over the same period mainly due to an anticipated reduction in the signing of large policies.

## RISK PROFILE OF BUSINESS FACILITATED

We assume more risk than a typical financial institution - this increased risk appetite is mandate driven. We take on larger single counterparty exposures and larger concentration exposures by sector, most notably in the transportation and extractive sectors, exposing us to large potential losses. In addition, supporting and increasing export trade for SMEs is a priority for EDC and this business is typically of higher risk.

The risk profile of the financing portfolio is one of the key drivers of both the provision for credit losses and capital demand for credit risk.

As depicted in Table 2, our credit risk demand for capital is largely generated from non-investment grade financing exposure.

**Table 2: Impact of Financing Portfolio Risk Mix on Demand for Capital**

<i>as at December 31, 2013</i> <i>(in billions of Canadian dollars)</i>	Notional exposure*	% of total	Demand for capital (credit risk)	% of total
Investment grade	30.9	57	0.7	14
Non-Investment grade	23.6	43	4.2	86
<b>Total</b>	<b>\$54.5</b>	<b>100</b>	<b>\$4.9</b>	<b>100</b>

\* Includes all financing exposure that attracts demand for capital.

Table 3 provides the projected risk profile for new loan signings for the remainder of 2014 and throughout the planning period.

**Table 3: Risk Categories for New Loan Signings (2013-2019)**

<i>(Based on \$ value of signings)</i>	<b>Inv. Grade</b>	<b>Non-Inv. Grade</b>
Actual 2013	<b>63%</b>	<b>37%</b>
2014 Corporate Plan	<b>57%</b>	<b>43%</b>
2014 Forecast	<b>63%</b>	<b>37%</b>
2015 Corporate Plan	<b>61%</b>	<b>39%</b>
2016 Projected	<b>58%</b>	<b>42%</b>
2017 Projected	<b>57%</b>	<b>43%</b>
2018 Projected	<b>57%</b>	<b>43%</b>
2019 Projected	<b>57%</b>	<b>43%</b>

We are forecasting the level of investment grade signings for 2014 to be 6% higher than the 2014 Corporate Plan. The forecast is driven by several large investment grade deals signed in the first half of 2014 in the extractive sector. As previously mentioned, EDC participates in financing facilities which we refer to as “pull facilities” for certain targeted foreign companies to create opportunities for Canadian suppliers. These facilities are typically large investment grade deals. We continue to take on risk in the non-investment grade space as we facilitate a large number of higher risk, lower dollar value loan transactions. Based on number of transactions, more than 80% of loan signings in the first half of 2014 were with non-investment grade obligors.

The 2016-2019 projections reflect the impact of the forecast financing growth in the aerospace sector. Airline customers are typically of lower credit quality on average, leading to a riskier credit profile throughout the planning period.

## FOREIGN EXCHANGE

The Financial Plan uses a year-to-date average rate as the U.S. dollar foreign exchange rate assumption for the remainder of 2014 and all subsequent years. This removes the volatility associated with yearly dollar fluctuations and ensures more easily comparable projections. The rate used in this plan, as represented by the average rate for the period January 2014 through June 2014, is U.S. \$0.91.

## INTEREST RATES

This forecast assumes that as America’s economic recovery continues, the U.S. Federal Reserve will remove the extraordinary monetary stimulus (quantitative easing) currently in place and interest rates will begin to increase in 2015.

## 3.2 ADMINISTRATIVE EXPENSES & PRODUCTIVITY RATIO

We are targeting administrative expenses of \$356 million for 2015 versus a current forecast for 2014 of \$330 million. Items of significance in our administrative expense projections for 2015 and beyond are as follows:

- Retaining a skilled workforce is important for the on-going success of the organization therefore we do anticipate normal salary increases. We also expect to complement our talent pool to support the growing business requirements of the organization, specifically related to achieving our objectives of helping SMEs succeed as previously discussed in Chapter 2.
- In addition, we are increasing our investment in promotional activities in an effort to raise awareness and understanding among Canadian exporters – especially among small and medium-sized businesses – of the benefits of trade and the EDC tools available to them.
- As discussed in chapter 2, we are in the process of a large scale transformation effort to modernize our legacy systems and improve the ease of doing business for our customers. This involves significant capital expenditures to transform our technology systems. As a result, we will be incurring increased depreciation expenses in the latter years of the Plan once the new technology becomes operational.
- The administrative expenses projections include a significant amount related to accounting pension expense in each year. The pension expense is an actuarially determined amount and is difficult to predict, as it is determined using a discount rate which is dependent on year-end market data. Included in the administrative expense projections are substantial pension cost reductions commencing in 2016 as a result of the projected increase in the discount rate which aligns with our outlook on interest rates.

A discount rate of 4.50% has been used as the basis for developing the 2015 pension expense included in the Corporate Plan which aligns with the discount rate for plans of similar duration as ours (approximately 17 years) as at June 30, 2014. Should the discount rate at December 31, 2014 vary from the rate of 4.50%, the 2015 pension expense will be impacted. A 10 basis point increase in the discount rate translates into an approximate \$1.9 million decrease in pension expense, all other things being equal.

### PRODUCTIVITY RATIO

We remain committed to financial sustainability through the management of our productivity ratio (PR), which measures our administrative expenses as a percentage of our operating income. In recent years we have targeted a ratio of 24-26%; however, this can be challenging due to normal fluctuations in expenses and trade creation initiatives. We leverage productivity gains achieved through our investments in people, process improvements and technology to offset these fluctuations. By focusing on the productivity ratio rather than solely on expenses, it allows us some degree of flexibility to increase costs, where appropriate and/or when required provided there is a commensurate increase in revenue.

We are currently projecting the PR for both 2014 and 2015 to be within the range, however it is approaching the upper end of the range in 2015. This is due to several factors previously discussed, including the transformation effort to modernize our legacy systems, increased investment in promotional activities and resources as we tailor our services to SMEs, an increase in pension expenses due to a lower discount rate and the build out of our enterprise risk management framework.

The PR from 2016 to 2019 is expected to be outside the range. We are projecting interest expense to increase significantly due to the funding of the dividend payments that are projected over the planning period. Our current dividend methodology, which was implemented in 2013, results in dividend payments of \$4.8 billion from 2015 to 2019. In addition we have paid \$3.1 billion in dividends since 2012. A portion of our loan book is funded by our capital base and the payment of large dividends means there is less capital available to fund the loans. As a result, a higher level of debt will be required over the planning period which leads to an increased interest expense.

In 2015 we will establish a new target range of 25%-28% for the productivity ratio to take into account the structural change resulting from the large dividend payments as well as other factors in our operating environment which have evolved since the current PR range was set. As previously discussed, we are committed to a stronger focus on supporting SMEs. This will require us to make additional investments to reach this important audience and these investments may not correspond with a proportional increase in revenue. We especially want to help a greater number of SMEs become first time exporters and to do this we will need to create awareness of EDC's services.

### 3.3 PLANNED CAPITAL EXPENDITURES

**Table 4: Projected Capital Expenditures (2013-2019)**

	2013	2014	2014	2015	2016	2017	2018	2019
<i>(in millions of Canadian dollars)</i>	Actual	Plan	Fcst	Plan	Proj	Proj	Proj	Proj
Head Office and Facilities	0.2	4.4	3.4	5.2	3.9	4.3	3.7	3.1
Information Technology	24.2	31.2	32.2	46.2	41.1	27.4	22.5	21.5
<b>Total Capital Expenditures</b>	24.4	35.6	35.6	51.4	45.0	31.7	26.2	24.6

Capital expenditures for 2015 are projected to be higher than the 2014 forecast as a result of the modernization of our legacy systems. We continue to draw on capital, internal resources and operating costs in 2015 and 2016, as we redesign and rebuild our business platforms while continuing to maintain our existing systems.

## 3.4 FINANCIAL RESULTS

### STATEMENT OF COMPREHENSIVE INCOME

**Table 5: Projected Condensed Consolidated Statement of Comprehensive Income (2013-2019)**

<i>for the year ended December 31</i> <i>(in millions of Canadian dollars)</i>	2013	2014	2014	2015	2016	2017	2018	2019
	Actual	Plan	Fcst	Plan	Proj	Proj	Proj	Proj
<b>Financing and investment revenue</b>								
Loan	1,174	1,121	1,238	1,304	1,851	2,355	2,669	2,932
Finance lease	6	5	5	4	2	–	–	–
Operating lease	55	69	51	46	46	46	46	46
Marketable securities	32	29	43	59	97	128	155	186
Investments	8	4	4	4	5	5	6	6
<b>Total financing and investment revenue</b>	<b>1,275</b>	<b>1,228</b>	<b>1,341</b>	<b>1,417</b>	<b>2,001</b>	<b>2,534</b>	<b>2,876</b>	<b>3,170</b>
Interest expense	30	68	77	227	919	1,464	1,793	2,045
Leasing and financing related expenses	49	45	48	42	45	49	48	48
<b>Net Financing and Investment Income</b>	<b>1,196</b>	<b>1,115</b>	<b>1,216</b>	<b>1,148</b>	<b>1,037</b>	<b>1,021</b>	<b>1,035</b>	<b>1,077</b>
<b>Loan Guarantee Fees</b>	<b>36</b>	<b>40</b>	<b>37</b>	<b>36</b>	<b>44</b>	<b>52</b>	<b>58</b>	<b>67</b>
Insurance premiums and guarantee fees	204	201	215	221	230	236	243	250
Reinsurance assumed	11	8	8	5	5	5	5	5
Reinsurance ceded	(22)	(21)	(26)	(25)	(25)	(25)	(25)	(26)
<b>Net Insurance Premiums and Guarantee Fees</b>	<b>193</b>	<b>188</b>	<b>197</b>	<b>201</b>	<b>210</b>	<b>216</b>	<b>223</b>	<b>229</b>
<b>Other Income (Expenses)</b>	<b>(109)</b>	<b>9</b>	<b>35</b>	<b>6</b>	<b>18</b>	<b>18</b>	<b>23</b>	<b>23</b>
<b>Administrative Expenses</b>	<b>310</b>	<b>334</b>	<b>330</b>	<b>356</b>	<b>357</b>	<b>359</b>	<b>369</b>	<b>379</b>
<b>Income before Provision and Claims-Related Expenses</b>	<b>1,006</b>	<b>1,018</b>	<b>1,155</b>	<b>1,035</b>	<b>952</b>	<b>948</b>	<b>970</b>	<b>1,017</b>
<b>Provision for (Reversal of) Credit Losses</b>	<b>30</b>	<b>177</b>	<b>(7)</b>	<b>191</b>	<b>265</b>	<b>214</b>	<b>173</b>	<b>281</b>
<b>Claims-Related Expenses</b>	<b>159</b>	<b>60</b>	<b>132</b>	<b>59</b>	<b>81</b>	<b>83</b>	<b>84</b>	<b>85</b>
<b>Net Income</b>	<b>817</b>	<b>781</b>	<b>1,030</b>	<b>785</b>	<b>606</b>	<b>651</b>	<b>713</b>	<b>651</b>
<b>Other Comprehensive Income (Loss)</b>	<b>119</b>	<b>38</b>	<b>(83)</b>	<b>154</b>	<b>105</b>	<b>54</b>	<b>3</b>	<b>3</b>
<b>Comprehensive Income</b>	<b>936</b>	<b>819</b>	<b>947</b>	<b>939</b>	<b>711</b>	<b>705</b>	<b>716</b>	<b>654</b>
<b>Productivity Ratio</b>	<b>22.7%</b>	<b>24.7%</b>	<b>23.8%</b>	<b>25.6%</b>	<b>27.3%</b>	<b>27.5%</b>	<b>27.6%</b>	<b>27.1%</b>

## 2014 FORECAST VERSUS 2014 CORPORATE PLAN

We are forecasting net income of \$1,030 million for 2014, an increase of \$249 million over the 2014 Corporate Plan. This is primarily due to an increase in loan revenue as well as a decrease in the provision for credit losses.

- Loan revenue has increased by \$117 million mainly due to:
  - A favourable foreign exchange impact as a result of the weakening of the Canadian dollar in relation to the U.S. dollar, resulting in increased revenue of \$78 million in 2014; and
  - 2013 actual net disbursements were \$1.5 billion higher than contemplated in the Plan, resulting in increased revenue of \$20 million in 2014.
- We are projecting a reversal of provision for credit losses of \$7 million compared to a provision expense of \$177 million in the Plan. The change is primarily due to the following:
  - An increase in the level of prepayments and the sale of loan assets for risk mitigation purposes, resulting in a release of provision of \$79 million; and
  - Significant upward credit migration, particularly for one aerospace obligor, which resulted in a decrease in provision of \$76 million.
- Additional items of note regarding this forecast are as follows:
  - Operating lease revenue has declined by \$18 million primarily as a result of the sale of 26 aircraft (18 CRJ200s and 8 CRJ900s).
  - Other income is forecast to be \$35 million compared to \$9 million in the 2014 Corporate Plan. The variance is mainly due to the sale of aircraft and loan assets resulting in a gain of \$56 million, partially offset by volatility associated with our financial instruments carried at fair value in our results for the first six months of 2014. Due to the volatility and difficulty in estimating fair value gains or losses on long-term debt, investments and related derivative instruments, no forecast for these items is included in the Corporate Plan financial results.
  - Claims-related expenses have increased \$72 million mainly due to an increase in the net allowance for claims on insurance as a result of heightened risk in our political risk insurance portfolio.
  - Other comprehensive income has decreased when compared to the 2014 Corporate Plan due to the re-measurement of pension assets and liabilities. The discount rate used to value our pension obligation decreased, while the Corporate Plan had projected that it would increase.

## 2015 CORPORATE PLAN VERSUS 2014 FORECAST

The planned net income for 2015 is \$785 million, which is a decrease of \$245 million from 2014. This is primarily due to:

- Higher loan provision requirements, as we do not expect the 2014 level of positive credit migration, loan asset sales and prepayments to reoccur.
- Interest rates are projected to rise starting in 2015. The increase in interest expense is projected to be higher than the increase in loan revenue mainly as a result of our debt resetting to the higher interest rate at a quicker pace than our loan book. In addition, we are projecting a reduction of revenue on our capital swaps (see the following section for more details on the capital swaps).

## 2016 TO 2019

As the economy returns to a more normal level of growth, we are anticipating that interest rates will rise from 2016 to 2019, thereby significantly increasing loan revenue and interest expense with little impact on net financing and investment income. The projected growth in our loan book results in an increase in net financing and investment income; however, interest expense also increases due to the funding of the dividend payments and our capital swaps as discussed below.

Items of interest to note in the 2016-2019 period include:

- We are projecting dividend payments of \$4.8 billion from 2015 to 2019. These payments are funded by debt and therefore will result in an increase in interest expense which negatively impacts the productivity ratio.
- In 2016 to 2019, we are forecasting an interest expense on our capital swaps. These are currency swaps that are set up with the objective to offset U.S. dollar assets and liabilities with a U.S. dollar payable component and a Canadian dollar receivable component. The Plan projects that a negative spread will exist between the CDOR and U.S. Libor interest rates starting in 2016 and as a result we will pay interest on average of \$24 million per year during the 2016 to 2019 period. In comparison, we are projecting interest revenue of \$33 million in 2015 on our capital swaps.
- We are projecting interest rates to increase throughout the planning period and rising rates have a greater impact on our interest expense than our revenue since our debt resets more frequently than our loan assets.
- Included in the administrative expense projections are substantial pension cost reductions over the planning period as a result of a forecast increase in the discount rate used to value our pension obligation from 4.5% in 2014 to 6.0% by 2019. If this increase in rates does not materialize, administrative expenses in each year would be higher than currently projected in the Plan.
- Provision expense is projected to increase mainly due to significant disbursements associated with our Aerospace portfolio.

## STATEMENT OF FINANCIAL POSITION

Table 6: Projected Condensed Consolidated Statement of Financial Position (2013-2019)

<i>as at December 31</i> <i>(in millions of Canadian dollars)</i>	2013 Actual	2014 Plan	2014 Fcst	2015 Plan	2016 Proj	2017 Proj	2018 Proj	2019 Proj
<b>Assets</b>								
Cash	127	133	163	163	163	163	163	163
Marketable securities:								
At fair value through profit or loss	3,859	4,557	4,808	5,985	6,095	6,314	6,643	6,643
At amortized cost	80	–	80	–	–	–	–	–
Derivative instruments	688	714	722	722	722	722	722	722
Loans receivable	36,357	35,654	39,444	41,857	44,759	48,333	51,652	55,231
Allowance for losses on loans	(1,246)	(1,198)	(1,077)	(1,133)	(1,253)	(1,325)	(1,360)	(1,498)
Investments at fair value through profit or loss	537	656	635	745	861	986	1,112	1,225
Equipment available for lease	493	457	348	328	309	290	271	252
Net investment in aircraft under finance leases	76	59	64	50	17	–	–	–
Recoverable insurance claims	96	184	67	222	231	238	208	172
Reinsurers' share of premium and claims liabilities	93	88	105	107	110	114	118	122
Other assets	91	106	94	89	107	116	110	104
Property, plant and equipment	59	59	57	55	55	56	51	51
Intangible assets	44	50	57	86	100	95	85	71
Building under finance lease	162	152	155	148	141	134	126	119
Retirement benefit assets	–	–	–	–	101	175	188	190
<b>Total Assets</b>	<b>41,516</b>	<b>41,671</b>	<b>45,722</b>	<b>49,424</b>	<b>52,518</b>	<b>56,411</b>	<b>60,089</b>	<b>63,567</b>
<b>Liabilities and Equity</b>								
Accounts payable and other credits	144	133	103	98	93	88	82	76
Loans payable:								
Designated at fair value through profit or loss	29,108	31,569	32,054	36,514	41,051	46,647	50,339	54,959
At amortized cost	2,151	20	3,752	3,642	2,523	1,097	1,097	–
Derivative instruments	626	575	425	425	425	425	425	425
Obligation under finance lease	170	166	166	162	158	154	149	145
Retirement benefit obligations	128	207	181	17	–	–	–	–
Allowance for losses on loan commitments	47	59	37	43	48	52	58	69
Premium and claims liabilities	606	616	670	523	539	556	574	589
Loan guarantees	165	160	145	175	200	217	224	224
	<b>33,145</b>	<b>33,505</b>	<b>37,533</b>	<b>41,599</b>	<b>45,037</b>	<b>49,236</b>	<b>52,948</b>	<b>56,487</b>
<b>Equity</b>								
Share capital	1,333	1,333	1,333	1,333	1,333	1,333	1,333	1,333
Retained earnings	7,038	6,833	6,856	6,492	6,148	5,842	5,808	5,747
	<b>8,371</b>	<b>8,166</b>	<b>8,189</b>	<b>7,825</b>	<b>7,481</b>	<b>7,175</b>	<b>7,141</b>	<b>7,080</b>
<b>Total Liabilities and Equity</b>	<b>41,516</b>	<b>41,671</b>	<b>45,722</b>	<b>49,424</b>	<b>52,518</b>	<b>56,411</b>	<b>60,089</b>	<b>63,567</b>

## 2014 FORECAST VERSUS 2014 CORPORATE PLAN

Loans receivable are forecast to be \$3.8 billion higher than Plan primarily due to the 2013 ending loans receivable balance which was higher than projected in the 2014 Plan. The weakening of the Canadian dollar has also contributed to the increased loans receivable balance as the majority of our loan portfolio is denominated in U.S. dollars.

## 2015 CORPORATE PLAN VERSUS 2014 FORECAST

Loans receivable are projected to be \$2.4 billion higher than the 2014 forecast of \$39.4 billion as a result of net disbursements in 2015. Loans payable will grow due to the increase in loans receivable and the projected dividend payment in 2015.

## 2016 TO 2019

The proportion of our debt to equity is increasing over the planning period. Since 2012 we have paid \$3.1 billion in dividend payments and we are projecting another \$4.8 billion over the planning period all of which are funded with debt. As a result, our equity is declining while our debt position is growing.

## STATEMENT OF CHANGES IN EQUITY

Table 7: Projected Condensed Consolidated Statement of Changes in Equity (2013-2019)

<i>for the year ended December 31 (in millions of Canadian dollars)</i>	2013 Actual	2014 Plan	2014 Fcst	2015 Plan	2016 Proj	2017 Proj	2018 Proj	2019 Proj
<b>Share Capital</b>	1,333	1,333	1,333	1,333	1,333	1,333	1,333	1,333
<b>Retained Earnings</b>								
Balance beginning of year	7,542	7,008	7,038	6,856	6,492	6,148	5,842	5,808
Comprehensive income	936	819	947	939	711	705	716	654
Dividend paid	(1,440)	(994)	(1,129)	(1,303)	(1,055)	(1,011)	(750)	(715)
Balance end of year	7,038	6,833	6,856	6,492	6,148	5,842	5,808	5,747
<b>Total Equity at End of Year</b>	<b>8,371</b>	<b>8,166</b>	<b>8,189</b>	<b>7,825</b>	<b>7,481</b>	<b>7,175</b>	<b>7,141</b>	<b>7,080</b>

## STATEMENT OF CASH FLOWS

Table 8: Projected Condensed Consolidated Statement of Cash Flows (2013-2019)

<i>for the year ended December 31</i> <i>(in millions of Canadian dollars)</i>	2013	2014	2014	2015	2016	2017	2018	2019
	Actual	Plan	Fcst	Plan	Proj	Proj	Proj	Proj
<b>Cash Flows from (used in) Operating Activities</b>								
Net income	817	781	1,030	785	606	651	713	651
Adjustments to determine net cash from (used in) operating activities								
Provision for (reversal of) credit losses	30	177	(7)	191	265	214	173	281
Actuarial change in the net allowance for claims	1	9	49	(152)	11	11	10	8
Depreciation and amortization	65	71	54	52	58	62	65	66
Changes in operating assets and liabilities								
Change in derivative instruments receivable	358	–	10	–	–	–	–	–
Change in derivative instruments payable	(744)	–	236	–	–	–	–	–
Other	(94)	(96)	(69)	(184)	64	26	6	(18)
Loan disbursements	(14,100)	(13,469)	(15,995)	(14,983)	(16,387)	(17,891)	(18,372)	(18,913)
Loan repayments	9,932	11,160	13,820	12,569	13,488	14,280	15,008	15,289
<b>Net cash used in operating activities</b>	<b>(3,735)</b>	<b>(1,367)</b>	<b>(872)</b>	<b>(1,722)</b>	<b>(1,895)</b>	<b>(2,647)</b>	<b>(2,397)</b>	<b>(2,636)</b>
<b>Cash Flows from (used in) Investing Activities</b>								
Disbursements for investments	(124)	(174)	(153)	(208)	(234)	(248)	(261)	(266)
Receipts from investments	30	62	78	98	118	123	135	153
Finance lease repayments	10	12	13	14	11	2	–	–
Net (purchases)/sales/maturities of marketable securities at fair value through profit or loss	368	(586)	(949)	(1,177)	(110)	(219)	(329)	–
Net (purchases)/sales/maturities of marketable securities at amortized cost	(1)	78	–	80	–	–	–	–
<b>Net cash from (used in) investing activities</b>	<b>283</b>	<b>(608)</b>	<b>(1,011)</b>	<b>(1,193)</b>	<b>(215)</b>	<b>(342)</b>	<b>(455)</b>	<b>(113)</b>
<b>Cash Flows from (used in) Financing Activities</b>								
Issue of long-term loans payable - designated at fair value through profit or loss	7,899	11,309	10,155	14,065	15,847	14,851	14,405	16,657
Repayment of long-term loans payable - designated at fair value through profit or loss	(5,694)	(7,204)	(8,244)	(11,397)	(10,461)	(9,885)	(11,433)	(11,787)
Issue of long-term loans payable at amortized cost	1,030	–	2,633	–	–	–	–	–
Repayment of long-term loans payable at amortized cost	–	(1,016)	(1,097)	(110)	(1,119)	(1,426)	–	(1,097)
Net change in short-term loans payable - designated at fair value through profit or loss	1,119	(120)	(175)	1,660	(1,102)	460	630	(309)
Change in derivative instruments receivable	310	–	(51)	–	–	–	–	–
Change in derivative instruments payable	269	–	(173)	–	–	–	–	–
Dividend paid	(1,440)	(994)	(1,129)	(1,303)	(1,055)	(1,011)	(750)	(715)
<b>Net cash from financing activities</b>	<b>3,493</b>	<b>1,975</b>	<b>1,919</b>	<b>2,915</b>	<b>2,110</b>	<b>2,989</b>	<b>2,852</b>	<b>2,749</b>
<b>Effect of exchange rate changes on cash</b>	<b>6</b>	<b>–</b>						
<b>Net increase in cash</b>	<b>47</b>	<b>–</b>	<b>36</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Cash</b>								
Beginning of year	80	133	127	163	163	163	163	163
End of year	127	133	163	163	163	163	163	163

## ACCOUNTING POLICIES AND FUTURE ACCOUNTING CHANGES

The accounting policies used in the preparation of this Financial Plan are in accordance with International Financial Reporting Standards (IFRS). The earnings of the corporation and its subsidiary are not subject to the requirements of the Income Tax Act.

### AMENDED AND EVOLVING STANDARDS

The International Accounting Standards Board (IASB) has a number of projects underway, some of which will affect the standards relevant to EDC. The final version of *IFRS 9 – Financial Instruments* has been issued with an implementation date of January 1, 2018 and we are currently assessing the impact to EDC. We are also closely monitoring the progress on IASB projects related to insurance contracts and leases. Revisions made to these standards could potentially have a significant impact on EDC's financial statements in future periods.

## 3.5 CAPITAL MANAGEMENT

### CAPITAL ADEQUACY POLICY (CAP)

We efficiently manage our capital, through our Board-approved CAP, in order to be able to meet the demands of our current and future business while maintaining our ability to withstand future, unpredictable risks. A key principle of our CAP is the establishment of a target solvency standard for EDC that determines the level of capital that is required to cover our exposures even in exceptional circumstances. As a corporation, we target the maintenance of a AA solvency rating, consistent with the level targeted by leading financial institutions. Maintaining a AA target solvency rating ensures that our capital position is strong enough to enable us to remain a self-sustaining Crown corporation and to contribute, in a positive manner, to Canada's bottom line. Our capital position is also subject to downside vulnerabilities, and a AA target provides an appropriate level of resilience to the risks we take on in order to fulfill our mandate.

Both our demand for capital and our supply of capital are calculated using methodologies that are generally consistent with the Basel III framework. We define capital supply as the sum of total equity and allowances, as determined in accordance with IFRS. Under the capital management framework, we determine whether we have adequate capital by comparing our supply of capital to our demand for capital. We quantify demand for capital arising from credit, market, operational and business risk using rigorous models and practices.

**Table 9: Projected Capital Position (2013-2019)**

<i>(in millions of Canadian dollars)</i>	2013 Actual	2014 Plan	2014 Fcst	2015 Plan	2016 Proj	2017 Proj	2018 Proj	2019 Proj
<b>DEMAND FOR CAPITAL</b>								
Credit risk	5,937	5,572	5,084	5,076	5,542	5,592	5,777	6,055
Market risk	1,027	995	1,054	1,033	1,032	1,039	1,033	1,045
Operational risk	395	406	446	417	393	392	402	419
Total demand for capital	7,359	6,973	6,584	6,526	6,967	7,023	7,212	7,519
Supply of capital	10,196	9,971	9,882	9,447	9,260	9,059	9,088	9,196
Capital surplus/(deficit)	2,837	2,998	3,298	2,921	2,293	2,036	1,876	1,677
EDC target rating	AA	AA	AA	AA	AA	AA	AA	AA
EDC implied solvency rating	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA

The capital surplus is projected to be \$3.3 billion in 2014, an increase of \$0.3 billion compared to the Plan. The forecast reduction in the demand for credit risk in both 2014 and 2015 is mainly due to credit improvement in our Aerospace portfolio.

The projected increase in the demand for credit risk from 2016 to 2019 is mainly due to the ramp up of the CSeries aerospace initiative. It is important to note that there is some uncertainty with regards to the timing of the CSeries initiative due to delays in the anticipated start date of deliveries. As a result the increase in demand for credit risk could shift beyond 2016.

## ELIGIBLE DIVIDENDS

The eligible dividend compares our supply of capital at year-end to three components of the demand of capital:

- Our demand for capital at year-end;
- A 10% buffer of our demand for capital at year-end. This component is to allocate for changes in external environment and changes in portfolio results; and
- A specific provision for explicitly identified strategic initiatives.

The outcome for year-end 2013 has been a dividend payment of \$1.1 billion and the forecast eligible dividend for 2014 is \$1.3 billion. During the planning period we are projecting annual dividends ranging between \$500 million and \$1.1 billion. These calculations are based on proforma numbers and as a result the future dividends may differ from those projected. The actual dividend declared each year is determined by the Board of Directors in consultation with the Minister of International Trade and the Minister of Finance.

## 3.6 STATUTORY LIMITS

EDC is subject to two limits imposed by the *Export Development Act*:

- A limit on our contingent liability arrangements which is currently \$45 billion ('Contingent Liability Limit'); and
- A limit on our borrowings ('Loans Payable Limit'), as discussed on page 62.

Our projected position against each of these statutory limits at year-end throughout the planning period is provided in the following table:

**Table 10: Statutory Limits (2013-2019)**

<i>(in millions of Canadian dollars)</i>	2013 Actual	2014 Plan	2014 Fcst	2015 Plan	2016 Proj	2017 Proj	2018 Proj	2019 Proj
<b>Contingent Liability Limit</b>	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000
Credit insurance	8,257	8,341	9,674	9,377	9,705	10,045	10,396	10,708
Financial institutions insurance	4,545	4,035	4,314	4,064	4,206	4,353	4,506	4,641
Contract insurance and bonding	8,322	6,566	8,239	8,939	9,426	9,107	8,771	9,134
Political risk insurance	1,683	1,947	2,038	2,066	1,605	1,646	1,687	1,720
Loan guarantees	2,091	2,180	1,852	2,284	2,738	3,157	3,423	3,705
Position against limit	24,898	23,069	26,117	26,730	27,680	28,308	28,783	29,908
Percent used	55%	51%	58%	59%	62%	63%	64%	66%
<b>Loans Payable Limit</b>	136,155	125,115	125,565	122,835	117,375	112,215	107,625	107,115
Position against limit	31,259	31,589	35,806	40,156	43,574	47,744	51,436	54,959
Percent used	23%	25%	29%	33%	37%	43%	48%	51%

## 3.7 ASSET/LIABILITY MANAGEMENT AND BORROWING STRATEGIES

In accordance with the *Export Development Act* and the *Financial Administration Act*, we raise our funding requirements in international and domestic capital markets by borrowing, which includes issuing bonds, commercial paper or other debt instruments.

### ASSET LIABILITY AND MARKET RISK MANAGEMENT

We manage our exposures to interest rate, foreign exchange and credit risks arising from our Treasury operations through a policy framework, including risk and liquidity limits. Our policies are consistent with industry practices, approved by our Board of Directors and are compliant with the Minister of Finance Financial Risk Management Guidelines for Crown Corporations.

Market risks to which we are exposed include movements in interest rates and the impact they have on our book of assets and our liability positions, as well as foreign exchange risk as we report our financial results and maintain our capital position in Canadian dollars, whereas our asset book and much of our liabilities are in U.S. dollars or other currencies.

Credit risk from Treasury activities arises from two sources: investments and derivatives. In each case, there is a risk that the counterparty will not repay in accordance with contractual terms. The Board-approved Market Risk Management Policy establishes minimum counterparty credit rating requirements and maximum exposure limits for the management of credit risk. We also use other credit mitigation techniques to assist in credit exposure management. Currently, we have a collateral program in which 19 of Treasury's swap counterparties participate; our counterparties pledge sovereign debt from any of Canada, the United States, Great Britain, France and/or Germany (held by EDC's collateral agent) which typically offset a major portion of our credit exposure.

We continually monitor our exposure to movements in interest rates and foreign exchange rates as well as counterparty credit exposures. Positions against policy limits are reported on a monthly basis and any policy breach is immediately reported directly to the Chair of the Board of Directors. Our Asset Liability Committee meets, at least quarterly, to review current and future compliance with the corporation's Market Risk Management policies. Our market risk positions are reported quarterly to the Risk Management Committee of the Board of Directors.

## BORROWING STRATEGIES

### STATUTORY BORROWING AUTHORITIES

The *Export Development Act* permits us to borrow and have outstanding loans payable up to a maximum of 15 times the aggregate of our current paid in capital and retained earnings as determined by the audited financial statements for the previous year. Based on the 2014 forecast, the maximum limit for 2015 is estimated at \$122.8 billion, compared to forecast loans payable at the end of 2015 of \$40.2 billion.

We obtain Minister of Finance approval annually for our capital and money markets borrowing plans. Annual Board resolutions permit us to operate within the authorities prescribed by the Minister.

Occasionally, as a result of unforeseen financial market conditions or unexpected variances in approved corporate activity, there may be a need to amend the terms and conditions of the borrowing plans. In such instances, we will continue to seek the approval of the Minister of Finance and report on any associated changes in the Corporate Plan.

Should market conditions warrant, we could also request access to the Consolidated Revenue Fund (CRF). Minister of Finance authority to access this Fund is granted in the short-term and long-term borrowing approvals.

### BORROWING APPROACH

The objective of our funding programs is to ensure that commitments are met within the parameters of our Liquidity Policy and Risk Management Guidelines. Funding requirements are determined from a base amount as established in the Corporate Plan, adding a buffer for increased needs due to stressed market conditions or additional new business demand.

We issue commercial paper (CP) to meet operating requirements and may, in cases of restricted capital markets access, issue CP to fund long-term requirements for short durations. We issue capital market debt to meet requirements for maturing debt, our loan asset portfolio, the liquidity portfolio and future lending activities. The Treasury team seeks to maximize market access and flexibility, price debt issues fairly in the primary market and closely monitor secondary market performance to minimize debt service costs. The team also seeks to take advantage of opportunities to raise funds in currencies which match the currencies of our assets.

Derivatives are used as part of the asset/liability management process. Our policies prohibit the issuance of any financial instrument, derivative, or structured note whose value and hence financial risk cannot be calculated, monitored and managed on a timely basis.

The execution of the borrowing and liquidity strategies is monitored on a daily basis by the Treasury team's management. Monthly reports are provided to senior management and quarterly reports are provided to the Audit Committee of the Board.

## SOURCES OF FINANCING

### MONEY MARKETS BORROWING PROGRAM

We issue commercial paper in the money markets, in various currencies under multiple platforms for cash management purposes to fund our short-term financial commitments as well as to manage interruptions in capital markets access and unpredictable cash flow demands.

The new Liquidity Policy, implemented on July 1, 2014, requires the liquidity portfolio to meet anticipated cash requirements for a minimum of two weeks on a daily basis during a liquidity event. Forecast cash requirements are calculated using a 14 day rolling forecast which includes operations, loan disbursements, a portion of undrawn revolver commitments, and short and long-term maturities. In addition, a daily minimum U.S. \$2 billion of unused CP capacity is required.

Unpredictable cash flow demands most often result from undrawn revolver commitments, estimated at U.S. \$11.2 billion at December 31, 2015. These facilities range in size from approximately U.S. \$500 thousand to U.S. \$800 million and can provide for same day advances. Additional committed facilities which have not yet been drawn are forecast to total U.S. \$4 billion at the end of 2015.

We are seeking approval from the Minister of Finance for a money markets borrowing program limit of U.S. \$12 billion. The limit will enable us to meet the forecast peak in CP outstanding balances of U.S. \$7 billion while ensuring that the unused CP capacity combined with the investment portfolio is sufficient to meet Liquidity Policy requirements and unpredictable cash flow demands during a liquidity event. We are also seeking approval to approach the Minister for additional money markets capacity of U.S. \$4 billion should business requirements or market conditions necessitate access to additional funding.

### CAPITAL MARKETS BORROWING PROGRAM

The capital markets borrowing program diversifies its funding sources by offering debt securities to investors worldwide. Typical capital markets instruments include, but are not limited to: benchmark global bonds, plain vanilla bonds, structured and medium-term notes.

Structured and medium-term notes may be used to smooth the maturity profile, respond to investor demand or access local currency funding in priority emerging markets. These notes can be issued in a variety of maturities including longer-dated issues with callable features. Longer-dated callable instruments include an option for us to terminate the instrument at certain points up to and including at the 10 year anniversary of the instrument and are swapped into floating or fixed rate obligations. The mix of funding is guided by numerous factors including relative cost, market conditions and the profile of the loan assets portfolio.

The Corporate Plan projects a baseline borrowing requirement of U.S. \$12.8 billion with potential additional long-term requirements of U.S. \$2.2 billion. We are therefore requesting a capital markets borrowing limit of U.S. \$15.0 billion from the Minister of Finance.

## PRIMARY USES OF FINANCING

**Refinancing of Maturing Debt** – Maturing debt is refinanced through new issuance.

**Increased Lending Activity (Term Loan and Revolver New Business)** – Positive net loan disbursements are forecast in 2015.

**Held-for-Trading Marketable Securities** – Increases in the level of assets held for liquidity purposes.

## POTENTIAL INCREASES IN REQUIREMENTS

**Increased Lending and Investment Activity** – New business activity requirements could increase further if global economic activity outpaces our forecasts and/or world liquidity is reduced. Additional lending and investment program activity could increase borrowing requirements.

**Reduce CP Outstanding** – An increase in capital markets funding in response to favourable market conditions may permit us to reduce the amount of CP outstanding.

**Pre-Funding of 2016 Business Facilitated** – We may seek to pre-fund some of our 2016 capital markets requirements to minimize debt service costs and lock-in longer term funding.

**Table 11: Capital Markets Borrowing Requirement Projection for 2015**

<i>(in millions of U.S. dollars)</i>	USD	2015 Plan
Decrease/(Increase) in Cash from Operations	(631)	
Net Loan Disbursements	2,288	
Net Increase (Decrease) in Cash	-	
Eligible Dividend	1,188	
<b>Activity from Operations</b>		<b>2,845</b>
Funding Required for Change in Short-Term Loans Payable	(1,513)	
Funding Required for Change in Held-For-Trading Marketable Securities	1,000	
Refinancing of Debt Maturities	10,239	
Buybacks	250	
<b>Activity from Liabilities</b>		<b>9,976</b>
<b>Forecast Borrowing Requirements for Corporate Plan</b>		<b>12,821</b>
<b>Potential Increases to Cash Requirements</b>		
Changes to assumption on Lending Activity	700	
Changes to assumption on Revolving Facilities	500	
Reduction of Outstanding Commercial Paper	500	
Pre-funding of 2016 Volumes/Maturities	500	
<b>Potential Additional Borrowing Requirements</b>		<b>15,021</b>

**Table 12: Projected Borrowing Plans (2013 – 2019)**

<i>(in millions of Canadian dollars)</i>	2013 Actual	2014 Plan	2014 Fcst	2015 Plan	2016 Proj	2017 Proj	2018 Proj	2019 Proj
<b>Capital Markets Borrowing Limit</b>								
<b>(U.S. \$13.5 billion) <sup>1</sup></b>	9,569	14,810	14,810	-	-	-	-	-
Position	9,218	11,309	12,788	14,065	15,847	14,851	14,405	16,657
Percent used	96%	76%	86%	-	-	-	-	-
<b>Short-Term Borrowing Limit</b>								
<b>(U.S. \$12.0 billion) <sup>1</sup></b>	10,632	13,164	13,164	-	-	-	-	-
Position	5,911	5,383	5,704	7,306	6,077	6,341	6,999	6,999
Percent used	56%	41%	43%	-	-	-	-	-

<sup>1</sup> The limits are set each year in consultation with the Department of Finance, and accordingly, there are no limits set for 2015 to 2019.

## 3.8 OPERATION OF SUBSIDIARY

We incorporated Exinvest Inc. in 1995 and acquired shares of Exinvest Inc. in accordance with the applicable provisions of the *Financial Administration Act* and the *Export Development Act*. The authorized objectives of Exinvest Inc. are to establish and/or invest in corporations, partnerships, joint ventures or any other form of unincorporated bodies (financing vehicles), all of which will provide financial assistance for, or to the benefit of, sales or leases of goods, or the provision of services, or any combination thereof.

During 2014 and over the planning period, no new financing vehicles and no potential business transactions are anticipated. A shareholder distribution amounting to \$82 million is planned for 2015. This amount represents a dividend of \$36 million and a return of the stated capital of \$46 million which would represent a disposition of substantially all of the assets of Exinvest Inc. We are maintaining the subsidiary so that it will be available for future initiatives if required.

The following tables set out the consolidated financial results of Exinvest Inc. for the planning period. No Capital Expenditure Plan is provided, as Exinvest Inc. does not anticipate entering into any such expenditure over the planning period.

**Table 13: Exinvest Inc. Projected Statement of Income (2013-2019)**

<i>for the year ended December 31</i> <i>(in millions of Canadian dollars)</i>	2013	2014	2014	2015	2016	2017	2018	2019
	Actual	Plan	Fcst	Plan	Proj	Proj	Proj	Proj
<b>Revenue</b>								
Marketable securities	1	–	1	–	–	–	–	–
	1		1	–	–	–	–	–
<b>Expenses/(Income)</b>								
Administrative and other	(3)	–	1	–	–	–	–	–
	(3)	–	1	–	–	–	–	–
<b>Net Income</b>	<b>4</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Retained earnings at beginning of year	32	33	36	36	–	–	–	–
Dividend	–	(33)	–	(36)	–	–	–	–
<b>Retained earnings at end of year</b>	<b>36</b>	<b>–</b>	<b>36</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

**Table 14: Exinvest Inc. Projected Statement of Financial Position (2013-2019)**

<i>as at December 31</i> <i>(in millions of Canadian dollars)</i>	2013	2014	2014	2015	2016	2017	2018	2019
	Actual	Plan	Fcst	Plan	Proj	Proj	Proj	Proj
<b>Assets</b>								
Cash and marketable securities	82	–	82	–	–	–	–	–
<b>Total Assets</b>	<b>82</b>	<b>–</b>	<b>82</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Liabilities and Equity</b>								
Share capital	46	–	46	–	–	–	–	–
Retained earnings	36	–	36	–	–	–	–	–
<b>Total Liabilities and Equity</b>	<b>82</b>	<b>–</b>	<b>82</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

# ANNEX I: EXPORT DEVELOPMENT CANADA CORPORATE OVERVIEW

Export Development Canada (EDC) is a Crown corporation which provides trade finance and risk management services to facilitate the trade and investment activities of Canadian companies.

This reference guide is intended to complement the information provided in the Business Strategy by providing additional background, including information relating to EDC's:

- **Mandate and Operating Principles**, as prescribed under the *Export Development Act* and the strategic framework outlined in the Corporate Plan 2015-2019.
- **Legislative Powers and Obligations**, as prescribed under the *Export Development Act* and the *Financial Administration Act*.
- **Managerial and Organizational Structure**, the executive team manages the operations of EDC within the strategic goals and objectives as laid out in the Corporate Plan.
- **Board and Committee Structure**, the Board plays a pivotal role in setting the strategic direction of EDC and in ensuring that public policy objectives are met by EDC in the most effective manner. The Board also reviews the development and refinement of the various financial services, approves certain loans, insurance and guarantee contracts, authorizes funding transactions, and monitors EDC's performance.

This information has been provided in accordance with the Treasury Board of Canada's Guidelines for the Preparation of Corporate Plans.

## MANDATE AND OPERATING PRINCIPLES

### MANDATE

EDC's mandate is to 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.

### OPERATING PRINCIPLES

EDC's decision-making on key corporate initiatives is focused on improving Canada's trade and investment performance while continuing to improve the responsiveness and resilience of the organization.

EDC's goal is to create benefits for Canada. Our ability to fulfill this goal requires us to deploy our resources - our people and their unique talents, our financial capital and our technology - in an optimal manner. In doing so we ensure that, in our key decisions, we balance the value of our services to Canadian businesses with our ability to manage risk and our long term financial sustainability.

Two overarching principles guide our decisions: our Partnership-Preferred Philosophy and our commitment to Corporate Social Responsibility.

## LEGISLATIVE POWERS AND OBLIGATIONS

### LEGISLATIVE POWERS

The *Export Development Act* (The Act) and subsequent regulations, as amended from time to time, provide the legislative basis for EDC's activities. Section 10 of the Act outlines the powers that EDC may exercise in pursuit of its mandate. Transactions supported under Section 10 are considered to be **Corporate Account transactions** as they are funded and supported by the corporation's own balance sheet and income generating capacity, and not through annual appropriations.

In addition to its Corporate Account activities, under Section 23 of the Act, EDC may be authorized by the Minister for International Trade, with the concurrence of the Minister of Finance to undertake certain transactions of a financial nature to support and develop Canada's export trade. While EDC strives to find ways to structure transactions under its Corporate Account, there are a number of factors which might lead EDC to refer a transaction to **Canada Account**. For instance, the transaction could exceed EDC's exposure guideline for a particular country or involve markets or borrowers representing exceptionally high risks, amounts or financing terms in excess of what EDC would normally undertake. The monies required to discharge Canada Account transactions are made available from the Consolidated Revenue Fund.

The Act limits Canada Account's outstanding commitments to borrowers and liabilities under contracts of insurance and other agreements to an aggregate of \$20.0 billion.

In March 2014, after five years of temporary domestic powers granted to EDC in the 2009 budget in response to the financial crisis, new *Regulations Amending the Export Development Canada Exercise of Certain Powers Regulations* came into force. They define how EDC can deploy its capabilities in support of transactions in Canada. These regulations will be subject to a review by the Government of Canada three years after their entry into force.

## LEGISLATIVE OBLIGATIONS

Section 25 of the Act requires that the Minister of International Trade, in consultation with the Minister of Finance, initiate an independent review of the provisions and operation of the Act every 10 years. The 2008 review concluded in July 2010 with the passage of the *Budget Implementation Act*, which amends the *Export Development Act* to enable the corporation to open offices in foreign markets, and clarifies existing asset management powers for EDC's corporate account and the Canada Account.

To respond to private insurers about EDC's role in the short-term credit insurance market that arose in the review process, the government has established a credit insurance advisory group with a view to promoting partnership and reinsurance support for both domestic and short-term export credit insurance.

In addition to the Legislative Review, a special examination is mandated every five years under the *Financial Administration Act* (FAA) and a report on the findings must be submitted to the Board of Directors. The last special examination was conducted in 2008 and the next one is scheduled to take place in 2015.

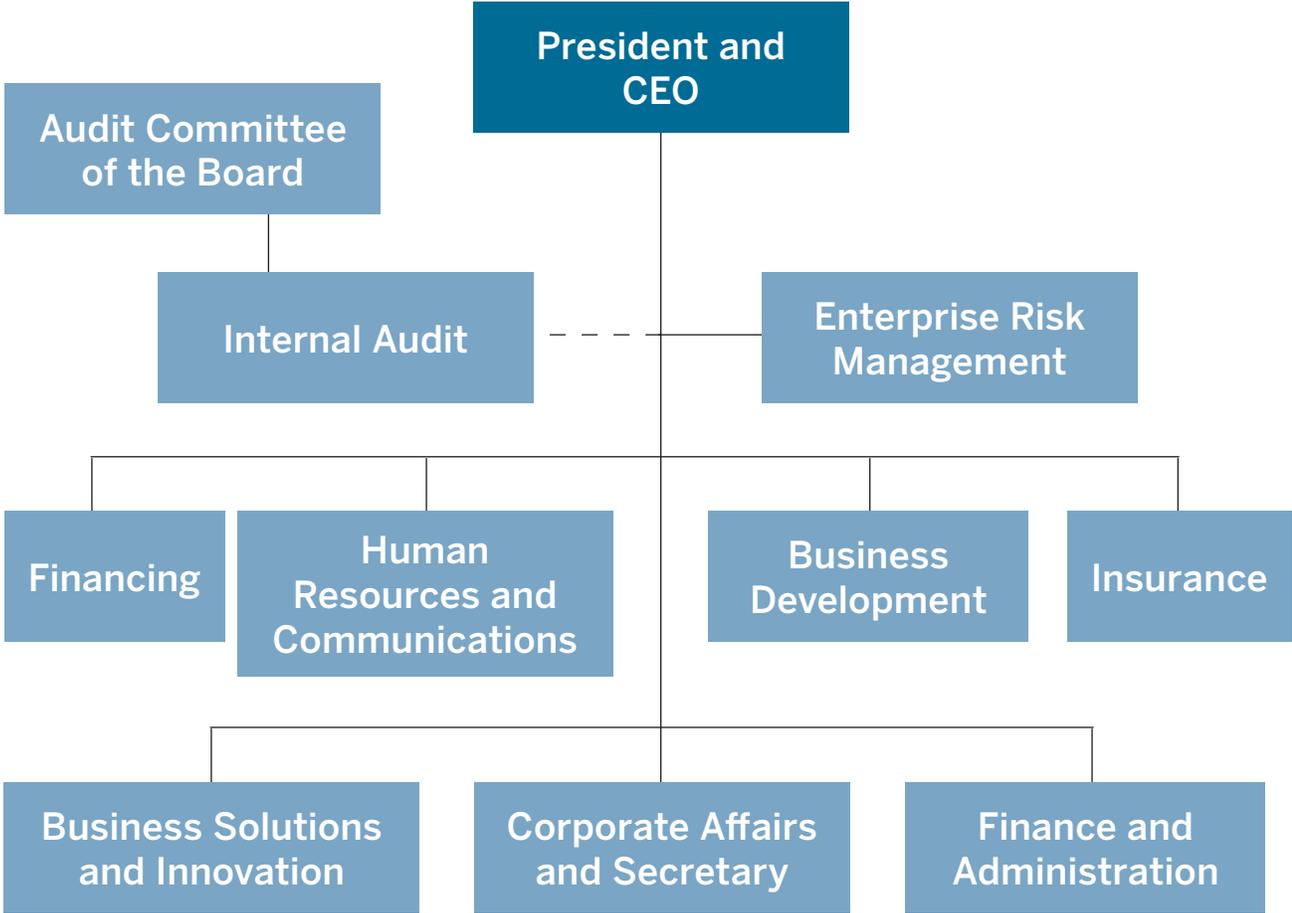
The Act also stipulates that an audit of the design and implementation of EDC's Environmental Review Directive (the Environment Audit) must be undertaken by the Office of the Auditor General (OAG) every five years. The 2014 review was presented to the EDC's Board of Directors and was tabled in Parliament [a copy of the review is available at <http://www.oag-bvg.gc.ca>].

## ACCOUNTABILITY TO PARLIAMENT

The Government of Canada primarily regulates Crown corporations through their enabling legislation and through the FAA. EDC is currently listed under Part I of Schedule III to the FAA, and as such is required to, among other things:

- submit an Annual Report, a Corporate Plan and an Operating Budget to the responsible Minister;
- make public the quarterly financial report within 60 days of quarter-end; and
- Undergo regular audits by the OAG.

# MANAGERIAL AND ORGANIZATIONAL STRUCTURE



## BOARD AND COMMITTEE STRUCTURE

