



TAKE ON THE WORLD

EXPORT DEVELOPMENT CANADA
Quarterly Financial Report
September 30, 2019
Unaudited

Canada 



TABLE OF CONTENTS

Management's Discussion and Analysis

Overview	2
Summary of Financial Results	4
Statement of Management Responsibility.....	6

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Financial Position	7
Condensed Consolidated Statement of Comprehensive Income.....	8
Condensed Consolidated Statement of Changes in Equity	9
Condensed Consolidated Statement of Cash Flows	10
Notes to the Condensed Consolidated Financial Statements	11
Note 1. Significant Accounting Policies	11
Note 2. Loans and Allowance for Losses.....	12
Note 3. Premium and Claims Liabilities	15
Note 4. Contingent Liabilities	15
Note 5. Equity	16
Note 6. Fair Value of Financial Instruments	16
Note 7. Financial Instrument Risks	18
Note 8. Net Insurance Premiums and Guarantee Fees.....	19
Note 9. Claims-Related Expenses	19
Note 10. Other (Income) Expenses	20
Note 11. Administrative Expenses	20
Note 12. Related Party Transactions	20

Caution regarding forward-looking statements

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

OVERVIEW

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

Economic Environment

The global economy continued to moderate in the third quarter of 2019, leading international organizations to further downgrade their GDP growth outlooks for 2019. Slower world trade was a key contributor, with volumes running in negative territory at the beginning of the third quarter, compared with a year ago. Elevated trade policy uncertainty, as the United States again raised tariffs on China in September, has held back business investment. However, labour markets, household spending and services sectors performed better.

Among developed economies, the United States has maintained relatively stable growth, although a loss in momentum is showing in recent data. With the heightened trade uncertainty and waning domestic fiscal stimulus, the Federal Reserve lowered its policy interest rate by a total of 50 basis points in the third quarter, their first interest rate cut in almost a decade. Despite job growth and stable domestic spending, weaker business investment and elevated trade uncertainty are weighing on the outlook. The reduction of long-term interest rates below short-term rates has raised fears of a deeper slowdown.

China's growth also appears to be slowing, with particular weakness in manufacturing orders and exports to the United States. In response to increased U.S.-China tariffs, China continues to employ domestic policy actions to offset deteriorating external conditions.

In Europe, sluggish growth reflected weaker global demand, as well as uncertainty over the Brexit process. Deadlines loom as the U.K. takes a more aggressive approach to withdrawal negotiations with the European Union. The European Central Bank cut its deposit rate by an additional 10 basis points, and signaled increases in its asset purchases to support growth.

Canada's economy is expected to return to a more subdued growth for the remainder of 2019. Like other countries, strong job and income growth is supporting consumer spending. The key risk to the outlook is led by weaker business investment and exports due to continued trade uncertainty. Nonetheless, with inflation running near the Bank of Canada's 2 percent target, the central bank held its policy interest rate at 1.75%.

Risk Management

Our business activities expose us to a wide variety of risks including strategic, financial and operational risks. We manage risk with a three lines of defence risk governance structure, which emphasizes and balances strong central oversight and control of risk with clear accountability for and ownership of risk within the “front lines”. The structure supports the cascade of EDC’s risk appetite throughout the organization and provides forums for risks to be appropriately considered, discussed, debated and factored into business decisions at all levels and across all functions. For a more comprehensive discussion on our risk management, please refer to pages 90-99 of our 2018 Annual Report. Refer to Note 7 of the accompanying financial statements for details on financial instrument risks.

Impact of Foreign Exchange Translation on Financial Results

Our foreign currency-denominated results are impacted by exchange rate fluctuations. The Canadian dollar relative to the U.S. dollar strengthened in the third quarter of 2019, resulting in a rate of \$0.76 at the end of the quarter compared to \$0.73 at the end of the prior year. The impact of the stronger dollar was a decrease to our assets and liabilities which are primarily denominated in U.S. dollars and are translated to Canadian dollars at rates prevailing at the statement of financial position date. In contrast, the Canadian dollar average for the third quarter of 2019 weakened against the U.S. dollar. The Canadian dollar averaged \$0.76 in the third quarter, compared to \$0.77 for the third quarter of 2018. This had a favourable impact on our financial results, as the components of net income as well as our business facilitated are translated at the average exchange rates.

Business Facilitated

Financing business facilitated decreased by 11% from the same period in 2018 primarily due to a 24% decrease in direct lending as a result of decreases in the oil and gas, information and communication technologies, and infrastructure and environment sectors. Project finance increased by 79% when compared to the same period in 2018 mainly due to an increase in the mining and surface transportation sectors.

Business facilitated within our financial institutions insurance product group increased by 57% compared to the same period in 2018 due to an increase in demand for the product by an existing policyholder.

	For the nine months ended	
	Sep	Sep
(in millions of Canadian dollars)	2019	2018
Business Facilitated		
Direct lending	13,201	17,400
Project finance	3,493	1,947
Loan guarantees	1,466	1,279
Investments	257	80
Total financing and investments	18,417	20,706
Credit insurance	42,921	43,663
Financial institutions insurance	5,401	3,435
International trade guarantee	4,441	5,193
Political risk insurance	2,104	2,109
Total insurance	54,867	54,400
Total business facilitated	\$73,284	\$75,106

SUMMARY OF FINANCIAL RESULTS

Financial Performance

(in millions of Canadian dollars)	For the three months ended		For the nine months ended		
	Sep 2019	Sep 2018	Sep 2019	Sep 2018	Sep 2019 Corporate Plan
Net financing and investment income	312	300	925	906	927
Net insurance premiums and guarantee fees ⁽¹⁾	63	66	192	189	194
Realized gains (losses) ⁽²⁾	(5)	(10)	(16)	(14)	4
Net revenue	370	356	1,101	1,081	1,125
Administrative expenses	128	121	395	353	409
Provision for credit losses	182	99	192	100	16
Claims-related expenses	21	139	73	179	69
Income (loss) before unrealized (gains) losses	39	(3)	441	449	631
Unrealized (gains) losses on financial instruments ⁽²⁾	158	(81)	268	(157)	-
Net income (loss)	(119)	78	173	606	631
Other comprehensive income (loss)	(58)	60	(53)	70	66
Comprehensive income (loss)	\$(177)	\$138	\$120	\$676	\$697

⁽¹⁾ Includes loan guarantee fees.

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

Quarter Highlights

We had a **net loss** of \$119 million in the third quarter of 2019 compared to **net income** of \$78 million for the same period in 2018 primarily due to unrealized losses on our financial instruments as well as increased loan provisioning requirements, partially offset by a decrease in our claims-related expenses.

We had **unrealized losses on financial instruments** of \$158 million in the third quarter of 2019 largely due to the volatility associated with our financial instruments carried at fair value through profit or loss.

The **provision for credit losses** of \$182 million in the third quarter of 2019 is primarily due to downward credit migration within our portfolio, including one impairment in the infrastructure and environment industry and one in the oil and gas industry.

We experienced \$21 million in **claims-related expenses** in the third quarter, a decrease of \$118 million from the same period in 2018. In the third quarter of 2018, we increased our allowance for insurance claims mainly due to heightened risk in our insurance program.

We recorded an **other comprehensive loss** of \$58 million as we remeasured our retirement benefit assets and liabilities. Remeasurement losses due to a decline in the discount rates used to value our pension obligations were partially offset by positive returns on plan assets.

Year to Date Highlights

Net income for the first nine months of 2019 was \$173 million, a decrease of \$433 million when compared to the same period in 2018 and \$458 million lower than the Corporate Plan mainly due to unrealized losses on our financial instruments carried at fair value and increased loan provisioning requirements, partially offset by lower claims-related expenses.

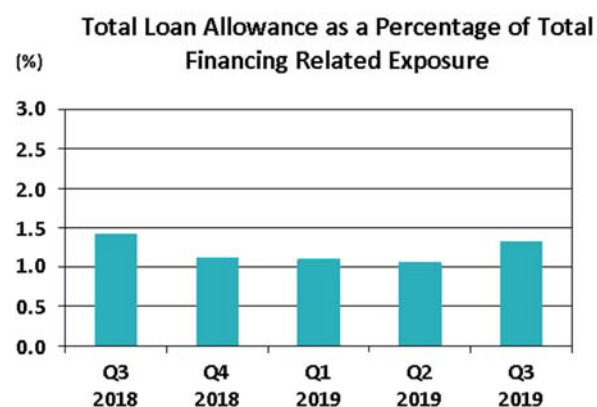
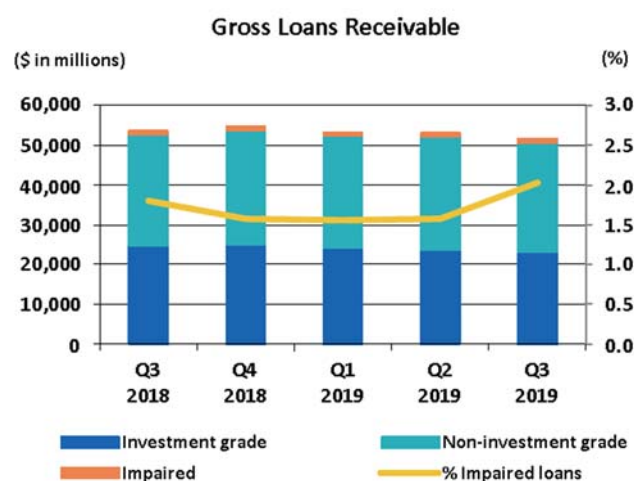
We had **unrealized losses on financial instruments** of \$268 million in the first nine months of 2019 largely due to the volatility associated with our financial instruments carried at fair value through profit or loss. Due to the volatility and difficulty in estimating fair value gains or losses on financial instruments, a forecast for these items is not included in the Corporate Plan.

Provision for credit losses was \$192 million, an increase of \$92 million from the prior year period and \$176 million higher than the Corporate Plan. The increase in provision charge is due to downward credit migration within our portfolio as previously discussed, which was not anticipated at the time the Corporate Plan was prepared.

Claims-related expenses were \$106 million lower than the same period in 2018. In 2018, we increased our allowance for insurance claims mainly due to heightened risk in our insurance program.

Financial Position

As at (in millions of Canadian dollars)	Sep 2019	Dec 2018	Sep 2019 Corporate Plan
Total assets	65,137	69,380	66,177
Total liabilities	55,683	59,035	56,158
Equity	9,454	10,345	10,019
Gross loans receivable	51,686	54,609	51,843
Total allowances - loans portfolio	1,030	920	1,170
Total allowances - insurance portfolio	250	620	288



Gross loans receivable decreased by \$2.9 billion from the end of the prior year primarily due to foreign exchange translation as well as net repayments of \$1 billion.

Impaired loans and total loan allowance as a percentage of total financing related exposures have increased since the second quarter of 2019 largely due to the impairments of two obligors as previously discussed. These events were not contemplated at the time the Corporate Plan was prepared.

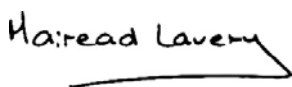
The decrease in the insurance allowance of \$370 million since December 2018 is primarily due to a large claim payment in our political risk insurance product group.

STATEMENT OF MANAGEMENT RESPONSIBILITY

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

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

Based on our knowledge, these unaudited condensed consolidated quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at September 30, 2019 and for the periods presented in the condensed consolidated quarterly financial statements.



Mairead Lavery,
President and CEO



Ken Kember,
Senior Vice-President & Chief Financial Officer

Ottawa, Canada
November 21, 2019

Export Development Canada

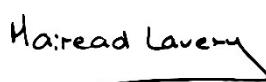
Condensed Consolidated Financial Statements

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

	Notes	Sep 2019	Dec 2018
Assets			
Cash		58	170
Marketable securities		11,227	13,119
Derivative instruments		646	256
Assets held for sale		10	13
Loans receivable	2	51,710	54,566
Allowance for losses on loans	2	(910)	(820)
Investments		1,536	1,342
Reinsurers' share of premium and claims liabilities	3	120	150
Other assets		371	205
Retirement benefit assets		80	92
Property, plant and equipment		44	50
Intangible assets		111	110
Right-of-use assets		134	127
Total Assets		\$65,137	\$69,380
Liabilities and Equity			
Accounts payable and other credits		267	226
Loans payable		52,518	55,448
Derivative instruments		1,862	1,971
Lease liabilities		160	150
Retirement benefit obligations		217	172
Allowance for losses on loan commitments	2	40	20
Premium and claims liabilities	3	470	890
Loan guarantees	2	149	158
Total Liabilities		55,683	59,035
<i>Financing commitments (Note 2) and contingent liabilities (Note 4)</i>			
Equity			
Share capital	5	1,333	1,333
Retained earnings		8,121	9,012
Total Equity		9,454	10,345
Total Liabilities and Equity		\$65,137	\$69,380

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

These financial statements were approved for issuance by the Board of Directors on November 21, 2019.


Robert S. McLeese
Director

Mairead Lavery
Director

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

		For the three months ended		For the nine months ended	
	Notes	Sep 2019	Sep 2018	Sep 2019	Sep 2018
Financing and Investment Revenue:					
Loan		573	569	1,760	1,611
Marketable securities		65	70	199	184
Investments		3	2	5	6
Total financing and investment revenue		641	641	1,964	1,801
Interest expense		324	332	1,022	870
Financing related expenses		5	9	17	25
Net Financing and Investment Income		312	300	925	906
Loan Guarantee Fees		13	12	40	35
Insurance premiums and guarantee fees		61	63	182	182
Reinsurance ceded		(11)	(9)	(30)	(28)
Net Insurance Premiums and Guarantee Fees	8	50	54	152	154
Other (Income) Expenses	10	163	(71)	284	(143)
Administrative Expenses	11	128	121	395	353
Income before Provision and Claims-Related Expenses		84	316	438	885
Provision for Credit Losses	2	182	99	192	100
Claims-Related Expenses	9	21	139	73	179
Net Income (Loss)		(119)	78	173	606
Other comprehensive income (loss):					
Retirement benefit plans remeasurement		(58)	60	(53)	70
Comprehensive Income (Loss)		\$(177)	\$138	\$120	\$676

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

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

	Notes	For the three months ended		For the nine months ended	
		Sep 2019	Sep 2018	Sep 2019	Sep 2018
Share Capital	5	1,333	1,333	1,333	1,333
Retained Earnings					
Balance beginning of period		8,298	8,676	9,012	8,707
IFRS 9 impairment transition adjustment		-	-	-	400
IFRS 16 transition adjustment		-	-	(1)	-
Revised balance at beginning of period		8,298	8,676	9,011	9,107
Net income (loss)		(119)	78	173	606
Other comprehensive income (loss)					
Retirement benefit plans remeasurement		(58)	60	(53)	70
Dividend paid	5	-	-	(1,010)	(969)
Balance end of period		8,121	8,814	8,121	8,814
Total Equity at End of Period		\$9,454	\$10,147	\$9,454	\$10,147

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

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

	For the three months ended		For the nine months ended	
	Sep 2019	Sep 2018	Sep 2019	Sep 2018
Cash Flows from (used in) Operating Activities				
Net income (loss)	(119)	78	173	606
Adjustments to determine net cash flows from (used in) operating activities				
Provision for credit losses	182	99	192	100
Actuarial change in the net allowance for claims on insurance	(6)	120	(362)	148
Depreciation and amortization	11	11	31	30
Realized losses	5	9	13	1
Changes in operating assets and liabilities				
Change in accrued interest and fees on loans receivable	(27)	30	(59)	(38)
Change in accrued interest and fair value of marketable securities	(24)	32	(215)	103
Change in accrued interest and fair value of loans payable	95	(18)	600	(74)
Change in fair value of investments	(45)	(82)	(115)	(82)
Change in derivative instruments	161	36	(137)	(73)
Other	(149)	(6)	(120)	(68)
Loan disbursements	(4,988)	(8,872)	(15,835)	(25,556)
Loan repayments and principal recoveries from loan asset sales	6,389	6,756	16,675	23,982
Net cash from (used in) operating activities	1,485	(1,807)	841	(921)
Cash Flows from (used in) Investing Activities				
Disbursements for investments	(72)	(56)	(198)	(207)
Receipts from investments	25	29	89	137
Purchases of marketable securities	(2,003)	(3,268)	(6,509)	(12,020)
Sales/maturities of marketable securities	2,453	4,071	7,257	8,902
Purchases of property, plant and equipment	(1)	(2)	(1)	(4)
Purchases of intangible assets	(5)	(6)	(18)	(21)
Net cash from (used in) investing activities	397	768	620	(3,213)
Cash Flows from (used in) Financing Activities				
Issue of long-term loans payable	4,456	1,367	14,080	11,390
Repayment of long-term loans payable	(5,471)	(1,632)	(11,269)	(7,783)
Issue of short-term loans payable	8,867	9,293	21,891	26,821
Repayment of short-term loans payable	(10,115)	(6,324)	(26,077)	(20,927)
Disbursements from sale/maturity of derivative instruments	(15)	(32)	(329)	(318)
Receipts from sale/maturity of derivative instruments	(1)	(4)	-	5
Dividend paid	-	-	(1,010)	(969)
Net cash from (used in) financing activities	(2,279)	2,668	(2,714)	8,219
Effect of exchange rate changes on cash and cash equivalents	5	(52)	(71)	31
Net increase (decrease) in cash and cash equivalents	(392)	1,577	(1,324)	4,116
Cash and cash equivalents				
Beginning of period	2,014	4,166	2,946	1,627
End of period	\$1,622	\$5,743	\$1,622	\$5,743
Cash and cash equivalents are comprised of:				
Cash	58	451	58	451
Cash equivalents included within marketable securities	1,564	5,292	1,564	5,292
	\$1,622	\$5,743	\$1,622	\$5,743
Operating Cash Flows from Interest				
Cash paid for interest	\$379	\$320	\$1,099	\$738
Cash received for interest	\$686	\$555	\$1,892	\$1,559

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

Notes to the Condensed Consolidated Financial Statements

1. Significant Accounting Policies

Basis of Presentation

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

Except as indicated below, these condensed interim consolidated financial statements follow the same accounting policies and methods of computation as our audited consolidated financial statements for the year ended December 31, 2018. They should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018 and the accompanying notes as set out on pages 117-171 of our 2018 Annual Report.

Basis of Consolidation

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

Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations adopted during the year

The following standard issued by the IASB was adopted during the year:

IFRS 16 – Leases – In January 2016, the IASB released the new leases standard requiring lessees to recognize assets and liabilities for the rights and obligations created by leases. On transition to IFRS 16 in January 2019, we applied the practical expedient not to reassess whether all existing contracts are, or contain, a lease at the date of initial application, and to apply this standard to contracts that were previously identified as leases under *IAS 17 - Leases*, and *IFRIC 4 - Determining whether an Arrangement contains a Lease*. We also applied the modified retrospective approach and recognized the measurement difference of \$1 million through an adjustment to opening retained earnings. As such, the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

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

There were no new standards, amendments or interpretations issued by the IASB during the quarter that have been assessed as having a possible effect on EDC in the future.

Use of Estimates and Key Judgments

The preparation of financial statements requires the use of estimates and key judgments. Judgment is required in the selection of accounting policies, and their application requires the use of estimates and assumptions to arrive at the reported carrying values of our assets and liabilities. Areas where management has made use of significant estimates and exercised judgment include the allowance for credit losses, assets held for sale, premium and claims liabilities, retirement benefit plans and financial instruments measured at fair value. Refer to page 120 of our 2018 Annual Report for details.

2. Loans and Allowance for Credit Losses

Loans Receivable

	Sep 2019	Dec 2018
<i>(in millions of Canadian dollars)</i>		
Gross loans receivable	51,686	54,609
Accrued interest and fees receivable	304	272
Deferred loan revenue and other	(280)	(315)
Total loans receivable	\$51,710	\$54,566

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

<i>(in millions of Canadian dollars)</i>	2019	2018
Balance at January 1	54,609	51,199
Principal repayments	(16,675)	(23,970)
Disbursements	15,835	25,556
Loans written off	(66)	(114)
Principal recoveries from loan asset sales	-	(12)
Capitalized interest	7	6
Foreign exchange translation	(2,024)	902
Balance at September 30	\$51,686	\$53,567

Exposure and Allowance by Credit Grade

				Sep 2019	Dec 2018		
	Non-credit- impaired		Credit- impaired		% of		% of
(in millions of Canadian dollars)	Stage 1	Stage 2	Stage 3	\$	total	\$	total
Gross loans receivable							
Investment grade*	20,739	2,516	-	23,255	45%	25,015	46%
Non-investment grade	17,736	9,588	-	27,324	53%	28,675	52%
Individually impaired	-	-	1,050	1,050	2%	863	2%
Originated credit-impaired	-	-	57	57	-	56	-
Gross loans receivable	38,475	12,104	1,107	51,686	100%	54,609	100%
Allowance for losses	88	364	458	910		820	
Net carrying value - loans receivable	\$38,387	\$11,740	\$649	\$50,776		\$53,789	
Loan commitments							
Investment grade*	10,022	1,074	-	11,096	59%	13,080	63%
Non-investment grade	5,899	1,960	-	7,859	41%	7,684	37%
Individually impaired	-	-	22	22	-	14	-
Total loan commitments	\$15,921	\$3,034	\$22	\$18,977	100%	\$20,778	100%
Allowance for losses	4	20	16	40		20	
Loan guarantees							
Investment grade*	590	13	-	603	17%	716	22%
Non-investment grade	2,206	673	-	2,879	81%	2,497	76%
Individually impaired	-	-	77	77	2%	61	2%
Total loan guarantees	\$2,796	\$686	\$77	\$3,559	100%	\$3,274	100%
Allowance for losses	13	8	59	80		80	

*Investment grade exposure represents obligors with credit ratings of BBB- and above, as determined based on our internal credit risk rating methodology. Exposures are presented before the effects of any risk-mitigation strategies.

Allowance for Losses

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

	Sep 2019				Sep 2018			
<i>(in millions of Canadian dollars)</i>	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Allowance for losses on loans receivable								
Balance at beginning of period	95	303	362	760	134	349	527	1,010
Provision for (reversal of) credit losses								
Transfer to stage 1	12	(12)	-	-	32	(32)	-	-
Transfer to stage 2	(8)	12	(4)	-	(23)	23	-	-
Transfer to stage 3	-	(19)	19	-	-	(2)	2	-
Remeasurements	(14)	82	83	151	(18)	24	54	60
New originations	7	2	4	13	18	15	2	35
Net repayments and maturities	(4)	(6)	(2)	(12)	(18)	(9)	-	(27)
Total provision for (reversal of) credit losses	(7)	59	100	152	(9)	19	58	68
Write-offs	-	-	(8)	(8)	-	-	(60)	(60)
Foreign exchange translation	-	2	4	6	(2)	(7)	(9)	(18)
Balance at end of period	88	364	458	910	123	361	516	1,000
Allowance for losses on loan commitments								
Balance at beginning of period	8	7	15	30	2	17	1	20
Provision for (reversal of) credit losses								
Transfer to stage 2	-	-	-	-	(1)	1	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-
Remeasurements	(3)	13	1	11	(1)	5	-	4
New originations	-	-	-	-	7	-	-	7
Net repayments and maturities	(1)	-	-	(1)	-	-	(1)	(1)
Total provision for (reversal of) credit losses	(4)	13	1	10	5	6	(1)	10
Balance at end of period	4	20	16	40	7	23	-	30
Allowance for losses on loan guarantees								
Balance at beginning of period	12	1	47	60	11	30	29	70
Provision for (reversal of) credit losses								
Transfer to stage 1	1	(1)	-	-	2	(2)	-	-
Transfer to stage 2	(5)	5	-	-	(3)	3	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-
Remeasurements	(5)	18	26	39	(7)	9	12	14
New originations	10	-	-	10	12	-	2	14
Net repayments and maturities	-	(15)	(14)	(29)	(2)	-	(5)	(7)
Total provision for credit losses	1	7	12	20	2	10	9	21
Foreign exchange translation	-	-	-	-	-	(1)	-	(1)
Balance at end of period	13	8	59	80	13	39	38	90
Total allowance for losses on loans receivable, loan commitments and loan guarantees	\$105	\$392	\$533	\$1,030	\$143	\$423	\$554	\$1,120

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	Sep 2019				Sep 2018			
<i>(in millions of Canadian dollars)</i>	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Allowance for losses on loans receivable								
Balance at beginning of period	110	353	357	820	113	388	523	1,024
Provision for (reversal of) credit losses								
Transfer to stage 1	46	(46)	-	-	80	(76)	(4)	-
Transfer to stage 2	(11)	17	(6)	-	(40)	40	-	-
Transfer to stage 3	-	(29)	29	-	-	(5)	5	-
Remeasurements	(64)	91	142	169	(60)	13	82	35
New originations	27	4	9	40	62	21	16	99
Net repayments and maturities	(16)	(21)	(3)	(40)	(34)	(28)	(3)	(65)
Total provision for (reversal of) credit losses	(18)	16	171	169	8	(35)	96	69
Write-offs	-	4	(59)	(55)	-	-	(116)	(116)
Foreign exchange translation	(4)	(9)	(11)	(24)	2	8	13	23
Balance at end of period	88	364	458	910	123	361	516	1,000
Allowance for losses on loan commitments								
Balance at beginning of period	8	12	-	20	4	5	-	9
Provision for (reversal of) credit losses								
Transfer to stage 1	1	(1)	-	-	2	(2)	-	-
Transfer to stage 2	-	-	-	-	(3)	3	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-
Remeasurements	(8)	10	17	19	(4)	17	1	14
New originations	4	-	-	4	8	-	-	8
Net repayments and maturities	(1)	(1)	-	(2)	-	-	(1)	(1)
Total provision for (reversal of) credit losses	(4)	8	17	21	3	18	-	21
Foreign exchange translation	-	-	(1)	(1)	-	-	-	-
Balance at end of period	4	20	16	40	7	23	-	30
Allowance for losses on loan guarantees								
Balance at beginning of period	11	24	45	80	16	9	54	79
Provision for (reversal of) credit losses								
Transfer to stage 1	23	(23)	-	-	7	(7)	-	-
Transfer to stage 2	(6)	6	-	-	(8)	8	-	-
Transfer to stage 3	-	-	-	-	-	(1)	1	-
Remeasurements	(37)	15	48	26	(27)	44	21	38
New originations	23	-	-	23	28	-	2	30
Net repayments and maturities	(1)	(13)	(33)	(47)	(3)	(14)	(41)	(58)
Total provision for (reversal of) credit losses	2	(15)	15	2	(3)	30	(17)	10
Foreign exchange translation	-	(1)	(1)	(2)	-	-	1	1
Balance at end of period	13	8	59	80	13	39	38	90
Total allowance for losses on loans receivable, loan commitments and loan guarantees	\$105	\$392	\$533	\$1,030	\$143	\$423	\$554	\$1,120

Financing Commitments

The following table shows our outstanding financing commitments by type:

	Sep 2019	Dec 2018
<i>(in millions of Canadian dollars)</i>		
Signed loan commitments	18,977	20,778
Letters of offer	3,532	3,660
Unallocated confirmed lines of credit	140	121
Total financing commitments	\$22,649	\$24,559

3. Premium and Claims Liabilities

The premium and claims liabilities for our credit insurance, financial institutions insurance, international trade guarantee and political risk insurance product groups were as follows:

	Sep 2019			Dec 2018		
<i>(in millions of Canadian dollars)</i>	Insurance	Reinsurance	Net liabilities	Insurance	Reinsurance	Net liabilities
Credit insurance	190	(10)	180	200	(10)	190
Financial institutions insurance	10	-	10	10	-	10
International trade guarantee	60	-	60	70	(10)	60
Political risk insurance	210	(110)	100	610	(130)	480
Total	\$470	\$(120)	\$350	\$890	\$(150)	\$740

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

	Sep 2019	Dec 2018
<i>(in millions of Canadian dollars)</i>		
Deferred insurance premiums	140	160
Allowance for claims on insurance	330	730
Total premium and claims liabilities	470	890
Reinsurers' share of allowance for claims on insurance	(80)	(110)
Prepaid reinsurance	(40)	(40)
Reinsurers' share of premium and claims liabilities	(120)	(150)
Net premium and claims liabilities	\$350	\$740

4. Contingent Liabilities

As explained on page 118 of the 2018 Annual Report, we are subject to a limit imposed by the Export Development Act on our contingent liability arrangements. The limit is currently \$45.0 billion. Our position against this limit is \$27.2 billion as at September 30, 2019 (December 2018 - \$27.2 billion).

5. Equity

EDC's authorized share capital is \$3.0 billion consisting of 30 million shares with a par value of \$100 each. The number of shares issued and fully paid is 13.3 million (2018 – 13.3 million). In the first quarter of 2019, a dividend of \$1,010 million was paid to the Government of Canada (2018 – \$969 million).

6. Fair Value of Financial Instruments

Fair value represents our estimation of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For a full description of our controls, policies and valuation techniques surrounding fair value of financial instruments refer to Note 22 on page 152 of the 2018 Annual Report.

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

In the process of assessing the fair value for certain investment instruments, estimates determined in a manner consistent with industry practice are employed in the models which cannot be directly observed in the market. The methodologies and values derived from these models were relatively unchanged at the end of the third quarter of 2019 from what was disclosed in the 2018 Annual Report.

Fair Value Hierarchy

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

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

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

<i>(in millions of Canadian dollars)</i>										
	Sep 2019									Dec 2018
	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
Assets										
Performing fixed rate loans	-	13,598	423	14,021	13,702	-	13,538	56	13,594	14,317
Performing floating rate loans	-	35,793	813	36,606	36,568	-	38,177	277	38,454	38,998
Total performing loans receivable	-	49,391	1,236	50,627	50,270	-	51,715	333	52,048	53,315
Impaired loans	-	531	-	531	531	-	435	-	435	435
Loans receivable and accrued interest and fees	-	49,922	1,236	51,158	50,801	-	52,150	333	52,483	53,750
Marketable securities	6,679	4,548	-	11,227	11,227	6,772	6,347	-	13,119	13,119
Derivative instruments	-	646	-	646	646	-	256	-	256	256
Investments	4	-	1,532	1,536	1,536	1	-	1,341	1,342	1,342
Other assets	322	25	23	370	371	139	30	35	204	205
Liabilities										
Accounts payable and other credits	244	25	-	269	267	196	31	-	227	226
Loans payable	-	52,542	-	52,542	52,518	-	55,355	-	55,355	55,448
Derivative instruments	-	1,862	-	1,862	1,862	-	1,971	-	1,971	1,971
Loan guarantees	-	113	-	113	149	-	106	-	106	158

Changes in valuation methods may result in transfers into or out of Levels 1, 2 and 3. In the first nine months of 2019, there were no transfers between levels.

The following table summarizes the reconciliation of Level 3 fair values between the beginning of the year and the end of the third quarter of 2019 for the financial instruments carried at fair value:

<i>(in millions of Canadian dollars)</i>				Sep 2019
	Other Assets	Investments	Total	Total
Balance beginning of year	35	1,341	1,376	1,376
Decrease in other assets	(11)	-	(11)	(11)
Unrealized gains (losses) included in other (income) expenses	-	117	117	117
Purchases of assets/issuances of liabilities	-	198	198	198
Return of capital	-	(100)	(100)	(100)
Foreign exchange translation	(1)	(24)	(25)	(25)
Balance end of period	\$23	\$1,532	\$1,555	\$1,555
Total gains (losses) for the first nine months of 2019 included in comprehensive income for instruments held at the end of the quarter	\$(11)	\$111	\$100	\$100

7. Financial Instrument Risks

The principal risks that we are exposed to as a result of holding financial instruments are credit, market and liquidity risk. For a full description of our objectives, policies and processes for managing financial instrument risk refer to management's discussion and analysis on pages 93 to 98 and notes related to our derivative instruments and debt instruments on pages 141 to 143 of the 2018 Annual Report.

Credit Risk

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

Concentration of Credit Risk

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

<i>(in millions of Canadian dollars)</i>		Sep 2019	Dec 2018
		Exposure	Exposure
Country	\$ %	\$ %	
United States	17,805 26	20,868 29	
Canada	9,180 13	9,394 13	
United Kingdom	4,834 7	4,909 7	
India	4,159 6	4,382 6	
Chile	3,611 5	3,143 4	
Other	29,123 43	30,074 41	
Total	\$68,712 100	\$72,770 100	

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

<i>(in millions of Canadian dollars)</i>		Sep 2019	Dec 2018
		Exposure	Exposure
Industry	\$ %	\$ %	
Commercial:			
Aerospace	10,260 15	10,820 15	
Oil and gas	7,925 12	8,415 11	
Infrastructure and environment	6,721 10	8,504 12	
Surface transportation	6,668 10	7,176 10	
Financial institutions	6,478 9	6,234 8	
Mining	6,392 9	7,300 10	
Information and communication technologies	5,671 8	6,303 9	
Other	7,317 11	6,326 9	
Total commercial	57,432 84	61,078 84	
Sovereign	11,280 16	11,692 16	
Total	\$68,712 100	\$72,770 100	

8. Net Insurance Premiums and Guarantee Fees

The following table presents our net insurance premiums and guarantee fee revenue for our credit insurance, financial institutions insurance, international trade guarantee and political risk insurance product groups:

<i>(in millions of Canadian dollars)</i>	Three months ended					
	Sep 2019			Sep 2018		
	Gross premiums	Reinsurance	Net premiums	Gross premiums	Reinsurance	Net premiums
Credit insurance	29	(4)	25	31	(2)	29
Financial institutions insurance	2	-	2	3	-	3
International trade guarantee	25	(4)	21	23	(3)	20
Political risk insurance	5	(3)	2	6	(4)	2
Total	\$61	\$(11)	\$50	\$63	\$(9)	\$54

<i>(in millions of Canadian dollars)</i>	Nine months ended					
	Sep 2019			Sep 2018		
	Gross premiums	Reinsurance	Net premiums	Gross premiums	Reinsurance	Net premiums
Credit insurance	86	(10)	76	86	(6)	80
Financial institutions insurance	8	-	8	11	(1)	10
International trade guarantee	71	(10)	61	67	(10)	57
Political risk insurance	17	(10)	7	18	(11)	7
Total	\$182	\$(30)	\$152	\$182	\$(28)	\$154

9. Claims-Related Expenses

<i>(in millions of Canadian dollars)</i>	Three months ended		Nine months ended	
	Sep 2019	Sep 2018	Sep 2019	Sep 2018
Claims paid	27	20	434	52
Claims recovered	(2)	(3)	(11)	(33)
Claims recovered from reinsurers	-	(2)	-	(2)
Increase (decrease) in net allowance for claims on insurance	(6)	120	(362)	148
Decrease in recoverable insurance claims	2	2	11	11
Claims handling expenses	-	2	1	3
Total claims-related expenses	\$21	\$139	\$73	\$179

10. Other (Income) Expenses

	Three months ended		Nine months ended	
	Sep 2019	Sep 2018	Sep 2019	Sep 2018
<i>(in millions of Canadian dollars)</i>				
Net realized and unrealized (gain) loss on loans payable	99	(61)	605	(174)
Net realized and unrealized (gain) loss on derivatives	140	(38)	(12)	(5)
Net realized and unrealized (gain) loss on marketable securities	(38)	37	(207)	117
Net realized and unrealized (gain) loss on investments	(42)	(12)	(109)	(98)
Foreign exchange translation loss	1	2	4	15
Other	3	1	3	2
Total other (income) expenses	\$163	\$(71)	\$284	\$(143)

11. Administrative Expenses

	Three months ended		Nine months ended	
	Sep 2019	Sep 2018	Sep 2019	Sep 2018
<i>(in millions of Canadian dollars)</i>				
Salaries and benefits	65	56	198	170
Pension benefit expense	8	9	24	27
Other post-employment benefit and severance expense	3	3	9	9
Professional services	11	13	32	38
Systems costs	10	9	33	25
Amortization and depreciation	9	8	25	24
Marketing and communications	7	6	23	13
Occupancy	6	7	19	19
Travel, hospitality and conferences	2	2	7	8
Other	7	8	25	20
Total administrative expenses	\$128	\$121	\$395	\$353

12. Related Party Transactions

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

EDC'S MANDATE

Our mandate is to support and develop, directly or indirectly, Canada's export trade, and the capacity of Canada to engage in trade and respond to international business opportunities, as well as to provide development financing and other forms of development support in a manner consistent with Canada's international development priorities.

EDC is the owner of trademarks and official marks. Any use of an EDC trademark or official mark without written permission is strictly prohibited. All other trademarks appearing in this document are the property of their respective owners. The information presented is subject to change without notice. EDC assumes no responsibility for inaccuracies contained herein.

Copyright © 2019 Export Development Canada. All rights reserved.



Canada

