

2011–2015 CORPORATE PLAN SUMMARY

OPERATING BUDGET • CAPITAL BUDGET • BORROWING PLAN



FEBRUARY 2011





TABLE OF CONTENTS

2	Introduction
3	Executive Summary
5	Chapter 1 – The Planning Environment
13	Chapter 2 – EDC’s Business Strategy
15	2.1 Developing Knowledge and Relationships
26	2.2 Deploying Innovative Solutions
35	2.3 Delivering Value to EDC’s Customers and Partners
43	2.4 Measuring Success
51	Chapter 3 – The Financial Plan
52	3.1 Assumptions
56	3.2 Financial Management Strategy
57	3.3 Projected Consolidated Statements of Income and Comprehensive Income
61	3.4 Projected Consolidated Balance Sheet and Statement of Changes in Equity
64	3.5 Projected Consolidated Cash Flow Statement
65	3.6 Accounting Policies and Future Accounting Changes
68	3.7 Economic Capital
70	3.8 Capital Expenditures
72	3.9 Asset/Liability Management and Borrowing Strategies
79	3.10 Operation of Subsidiary
81	Annex I – Corporate Overview
89	Annex II – Canadian Export Forecast by Sector and Market

The 2011–2015 Corporate Plan was approved by EDC’s Board of Directors on October 22, 2010. The Plan and its underlying assumptions were developed over the summer and fall of 2010, during a period of ongoing uncertainty in the global economy. While the Plan and its underlying assumptions were aligned with the economic environment at the time of their development, continued volatility in the global economy may alter the economic landscape and, in some cases, impact the assumptions upon which the Plan is based.



INTRODUCTION

For more than 65 years, Export Development Canada (EDC) has provided financial solutions to Canadian companies to help them take advantage of global trade and investment opportunities. Our expertise in international trade and risk management, our strong network of relationships and our ongoing commitment to being a trusted partner to our customers has allowed the corporation to deliver timely and reliable financial solutions to Canadian companies when they need it most.

Enhancing Canada's Trade Performance – 2009 Highlights

- › EDC facilitated, directly and in partnership, \$82.8 billion in international trade and investments on behalf of Canadian companies during 2009, serving a record 8,469 customers.
- › Canadian companies witnessed an uncertain operating environment in 2009 with heightened global risk and a contraction in credit capacity. EDC stepped up to add capacity to the market, facilitating 18.7% of Canada's trade and foreign investment.
- › The business facilitated by EDC in 2009 helped generate \$61.0 billion of Canadian GDP and supported an estimated 642,000 jobs. This represents 4.9% of total Canadian GDP and 3.8% of national employment.

Although the global economy is emerging from recession, today's planning environment remains uncertain. While there are opportunities for companies looking to globalize their operations and enhance their competitiveness, the road to recovery presents a number of challenges. In such an environment, reliable access to financial resources and market knowledge remains crucial.

As a provider of trade-related financial solutions and a Canadian centre of expertise on international trade and investment, EDC plays an important role in working with Canadian companies and connecting them to international business opportunities. As Canada adjusts to the "new normal" environment, we will continue to develop the knowledge and relationships necessary to help Canadian global businesses succeed, deploy innovative solutions that meet the needs of our customers and partners and strive to deliver true value that will strengthen Canada's trade performance.



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.

The corporation'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. From March 2009 until March 2011, EDC is also responding to the domestic needs of Canadian companies within the trade-related space.

As the trade environment evolves, EDC will continue to respond to the changing needs of its customers – both directly and in partnership with the public sector and private financial institutions – to enhance Canada's trade performance.

THE PLANNING ENVIRONMENT

The current planning environment shows a global economy at the crossroads between recession and recovery. The recent financial crisis has changed the political, financial, regulatory and economic landscape to define a “new normal,” defined by slower economic growth compared to 2002–07 levels, excess capacity, cut-throat competition and continued deflationary conditions. The recession may be over, but persisting credit constraints and greater financial regulation stemming from the crisis signal a departure from a business-as-usual mentality towards financial intermediation.

Like export credit agencies (ECAs) around the world, EDC has played a critical role in bringing capacity to the market and helping companies navigate through the recession. As Canada adjusts to a new normal environment, EDC's goal of strengthening Canada's trade performance is more important than ever. Through our expertise in risk management, a network of strong partnerships at home and around the world, and a continued commitment to sound financial management, EDC is helping to grow Canadian businesses into global champions and providing the stability and predictability its customers need.

EDC'S BUSINESS STRATEGY

In 2009, the corporation adopted a new strategic framework, which outlined EDC's goal of being a trusted partner within a broader, Canadian context. EDC exists to enhance Canada's trade performance and this commitment underpins the Business Strategy.

The 2011–2015 Business Strategy will continue to be supported by the corporation's three strategic objectives:

» Developing Knowledge and Relationships

EDC will **DEVELOP knowledge and relationships** which strengthen its understanding of the market, positioning the corporation as a centre of expertise on trade and investment.

EDC's ability to respond to the needs of Canadian companies depends on its understanding of the global marketplace and the intricacies of the integrative trade environment. Continued uncertainty in the global economy makes a focus on knowledge all the more imperative.

This knowledge is strengthened by a strong network of public and private sector partners. EDC's relationships with Canadian financial institutions, foreign buyers, other Crown corporations, and its shareholder enable the corporation to leverage a wealth of resources to the benefit of Canadian global businesses.

› Deploying Innovative Solutions

EDC will **DEPLOY innovative solutions**, directly and through its network of partners, which position Canadian companies for success and contribute to Canadian prosperity.

EDC's innovative financial solutions are particularly important today in this period between recession and recovery. The continued economic uncertainty means that risks remain high and many companies are still experiencing challenges accessing credit on affordable terms.

The corporation has played a significant role in adding capacity to the market during the recent economic downturn through its core mandate and temporary domestic powers. As the global economy adjusts to the new normal environment, EDC's financing and insurance solutions continue to provide companies with greater predictability in managing their finances, mitigating risk and investing in future growth.

› Delivering Value

EDC will **DELIVER value** to its customers and partners by providing exceptional and predictable service.

EDC delivers value through reliable, timely, relevant service focused on the evolving needs of its customers regardless of their location, segment or sector. EDC's talented workforce, the investments made in the corporation's technological architecture, new head office and Lean process improvement all enable EDC to provide value to Canadian global businesses in a cost-effective manner.

Importantly, delivering value also means meeting the expectations of Canadians. Accordingly, EDC's commitment to corporate social responsibility (CSR) continues to be a core element of the Business Strategy.

FINANCIAL PLAN

Sound financial management provides the foundation for EDC's deployment of financial services. Through the corporation's expertise in risk management, its commitment to financial sustainability and its focus on efficiency, EDC can effectively respond to the demands of its customers today without compromising its ability to serve Canadian global businesses in the long term.

This focus on efficiency continues to be important to EDC, particularly in the current environment of cost containment. As a non-appropriation dependent Crown corporation, EDC has been asked to reflect the spirit and intent of the Treasury Board's recent freeze on operating budgets. EDC's Financial Plan will therefore identify areas in which the corporation is exercising additional prudence in managing its operational costs, as well as demonstrate how the investments it is making in its people, processes and technology will enable the corporation to carry out its activities in an efficient manner over the planning period.

EDC's Financial Plan addresses how the corporation is using its capital base to strengthen Canada's economic and financial capacity both domestically and internationally.

THE PLANNING ENVIRONMENT

Introduction

The current planning environment shows a global economy at the crossroads between recession and recovery. As the economy continues its recovery, EDC expects the environment will be characterized by uncertainty and heightened risk, with the recognition that the recent financial crisis has changed the political, financial, regulatory and economic landscape. This environment has been characterized as the “new normal.”

This presents both challenges and opportunities for Canadian companies. First, in the wake of the credit crisis, governments are expected to impose tighter lending regulations on financial institutions to protect against a repeat of the dynamic that precipitated the financial crisis and to ensure the availability of credit. What this means is that while investment grade-rated corporations should see renewed interest from international banks, sub-investment grade companies – particularly small and medium-sized businesses (SMEs) – will continue to face challenges in accessing credit. As such, EDC’s financial capacity and higher risk tolerance will continue to be held in high demand.

However, the new normal also presents opportunities for companies to diversify away from traditional markets. In contrast to the slowed growth in the United States, emerging markets are showing strong sustained growth for the foreseeable future. These markets present a wealth of opportunities in transportation, infrastructure, and manufacturing, and are generating strong demand for energy and other natural resources. Canadian companies need to diversify their customer base beyond the United States and expand into these markets, finding innovative ways to provide value to their customers and integrating into global supply chains.

Like export credit agencies (ECAs) around the world, EDC has played a critical role in bringing capacity to the market and helping companies navigate through the recession. As Canada adjusts to the new normal economy, EDC’s goal of strengthening Canada’s trade performance is more important than ever. Through our expertise in risk management, a network of strong partnerships at home and around the world, and a continued commitment to sound financial management, EDC is helping to grow Canadian businesses into global champions and providing the stability and predictability its customers need.

Planning in the New Normal Economy

THE OUTLOOK¹

Growth has returned to the global economy, although it is well below pre-recession levels and reflects a slow climb into recovery. Aggressive growth in the first half of the year has been tempered by a renewed slowdown in the global economy. As a consequence global GDP is expected to grow by 4.3% in 2010, and then dip down to 3.9% in 2011; while Canadian GDP is expected to grow 3.0% this year before easing to 2.2% in 2011.

In this context, Canadian export growth will give way to more modest increases. EDC is forecasting total Canadian exports to grow 11% in 2010 and then slow to 6% in 2011. Most of this growth is coming from Canada's extractive industries – energy, metals and minerals, and fertilizers – along with automotive industries. Outside of these sectors Canadian exports are showing much slower growth. Overall, despite gains in certain sectors, total export earnings will still remain well below 2002–2007 levels.

As Canada navigates its path towards recovery, debt levels created during the boom years are expected to be gradually worked down, and stability is expected to be restored to the markets. However, certain variables play a significant role in shaping the planning environment.

First, the volatility of international financial markets is a key risk to the global economy's path to recovery. Many international financial institutions are still facing considerable challenges and news of possible sovereign defaults coming out of European countries like Greece, Spain, Portugal and Ireland loom large as potential storm clouds over the global economy. This has prompted fears of a double-dip recession and the potential protectionist reactions which may result.

The high Canadian dollar is a second variable at play, which has both positive and negative implications for the economy as a whole. On the positive side, it makes the purchase of foreign goods and services cheaper, and leads to improvements in productivity, as Canadian companies take steps to remain competitive both at home and abroad. However, a rise in the value of the Canadian dollar hurts the competitiveness of many exporters. As prices charged to foreign buyers increase and competition from imports intensifies, the sales, cash flows and margins of Canadian companies are squeezed.

EDC expects the dollar to average \$0.96 in 2010 and \$0.95 in 2011. For further information about EDC's foreign exchange rate assumptions, please see section 3.1 of the Financial Plan.

¹ EDC's description of the planning environment is based on the Fall 2010 Global Export Forecast. This forecast is available at www.edc.ca

FINANCIAL REGULATION IN THE NEW NORMAL

Another important variable at play is the outcome of international regulatory reforms for financial institutions, aimed at reducing the risk of future credit crises.

New international regulations have imposed higher capital requirements and increased liquidity buffers for financial institutions worldwide. This has the potential to constrain banks and insurance companies' ability to lend and provide coverage, and raise the cost of credit as financial institutions would be required to set aside more capital against their loan assets. In addition, the changes to the Basel III framework will make off-balance sheet items such as trade finance subject to higher capital conversion ratios, increasing the costs of capital provisioning for traditional forms of short-term trade finance, such as letters of credit, and making it more expensive for banks to finance exports.

What does this mean for EDC? While the major Canadian banks are well-positioned to meet Basel III requirements, increased capital charges for trade finance could cause banks to increasingly look to ECAs to help offset risk, creating greater opportunities for partnership. In addition, by holding more capital, international banks will likely need to charge higher interest rates for lending and insurance companies may charge greater premiums. Credit appetites could also be limited by the amount of available capital. This could create a larger gap in the market for non-bank lenders, such as EDC, to fill and would reinforce the importance of ECAs in the international marketplace.

THE IMPACT ON CANADIAN COMPANIES

What issues does this environment present for Canadian companies? The slow road to recovery continues to pose challenges in many sectors, which are still coping with the impacts of the economic downturn. However opportunities for growth are also present, particularly for those companies willing to expand into emerging markets.

The following chart is based on market assessments conducted by EDC's sector teams and summarizes the main trends facing Canadian companies in 2011.

SECTOR

SECTOR TRENDS

Information and Communications Technologies

(Media and telecom, knowledge technologies and all related machinery, equipment and services)

- › Growth opportunities exist in telecom and new media, given greater demand on network capability (bandwidth) combined with demand for new applications for, and usage of smartphones.
- › Service industries are also growing, particularly in the area of eHealth (automation of records management and patient processing in hospitals).
- › Continued need for investment in R&D with a focus on commercialization to stimulate innovation and maintain export momentum.

Transportation

(Aerospace, rail, auto and other ground vehicles and all related machinery, equipment, components and services)

- › Outcome of OECD Aircraft Sector Understanding negotiations will likely impact how EDC finances sales for Canadian aerospace.
- › Automotive output still low (although growing again); suppliers are concerned about the U.S. recovery, but positive on a long-term Asian expansion.
- › Governments continuing to play a large role in supporting at-risk industries. Stimulus programs driving rail projects in Europe and Asia.
- › Excess capacity in North American railcar industry is abating; new opportunities are emerging in passenger and freight.

Extractive

(Mining, petrochemicals, fertilizers, oil and gas and all related machinery, equipment and services)

- › Continued economic uncertainty is causing some companies to delay capital expenditures and in some cases projects.
- › Potential legislative changes may impact companies' ability to access financing.
- › Increased activity in mergers and acquisitions.
- › Latin America and Australia identified as potential growth areas.
- › Gulf spill may have impacts on offshore drilling.

Light Manufacturing

(Consumer and secondary goods, life sciences and all related machinery, equipment and services)

- › Increasing risks of bankruptcies for other areas such as furniture, and some forms of machinery equipment.
- › Growing middle class in Latin American markets fueling growth for consumer goods.
- › Medical devices, plastics, and packaging sub-sectors present greatest opportunities for growth for emerging economies with a growing middle class.

Resources

(Bulk agriculture, meat, fisheries, forestry and all related machinery, equipment and services)

- › Volatility in all aspects of this sector.
- › Forestry struggling with overcapacity, decreased demand and reliance on the U.S. market. Long term trend for forestry is one of decline.
- › Financing credit gaps remain in fisheries due to withdrawal of certain foreign banks.
- › Strong growth opportunities in agri-food (specialty crops such as oilseeds, lentils), as well as agricultural equipment manufacturing.

Infrastructure and Environment

(Utilities, construction projects, environmental, alternative and renewable energy technology projects and all related machinery, equipment and services)

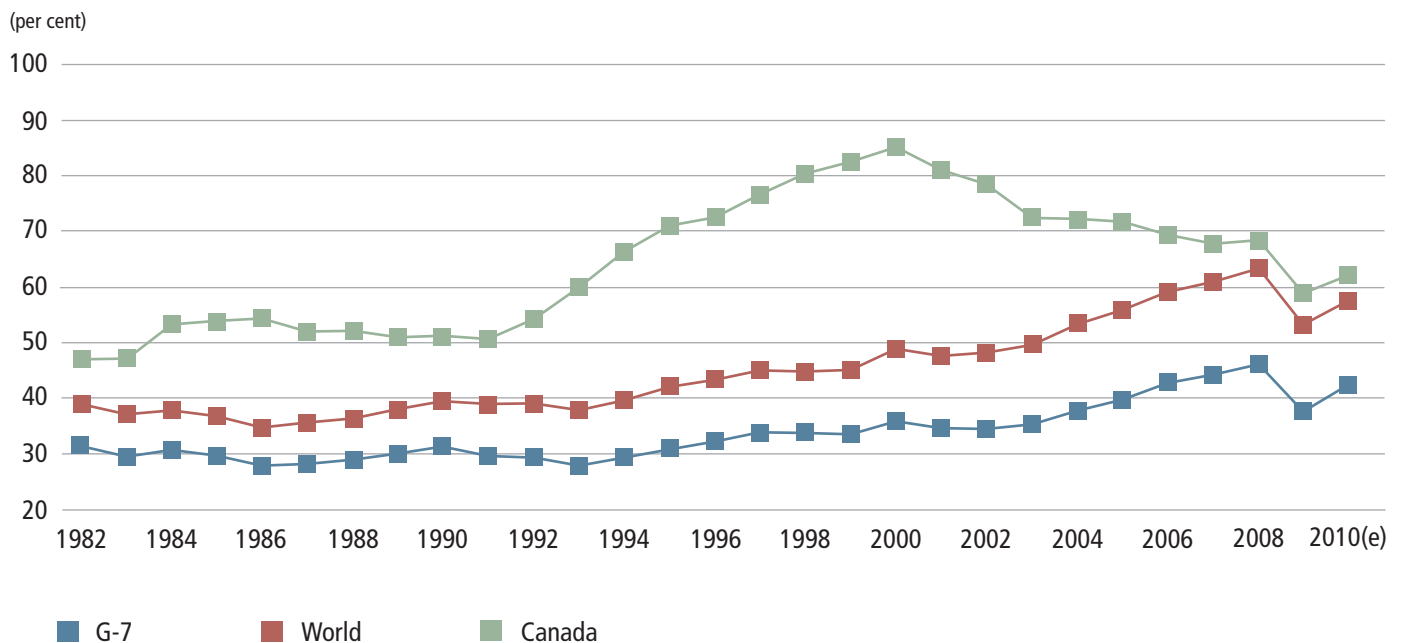
- › Wealth of opportunities in emerging markets, but falling demand in the U.S. market.
- › Continued concern about protectionism, particularly in U.S.
- › Public-private partnerships are on the rise as governments are looking at ways to meet growing infrastructure demand.

Canada's Trade Performance

To understand how the planning environment affects Canadian global businesses, it must be considered in the context of Canada's overall trade picture. Although Canada's trade performance remains strong in comparison to the rest of the world, it has been falling behind in recent years and the gap between Canada and the world average is narrowing (see figure 1). At the same time, the productivity gap between Canada and other industrialized nations has also been widening: Canada currently ranks 15th of 30 OECD members in terms of productivity.

FIGURE 1 | TRADE PENETRATION: CANADA AND WORLD

(EXPORTS + IMPORTS AS A SHARE OF GDP – USING NOMINAL \$ DATA)



Following a steady upward climb since 1990, trade penetration – how active a country is in terms of trade activity relative to the size of its economy – for Canada peaked at 85% in 2000, but declined to 62.1% by 2010 while penetration rates of major G-7 competitors have grown.²

The Government of Canada has an important role to play in helping Canadian businesses adapt to the realities of integrative trade and prevent further erosion of Canada's trade penetration. One of the ways it is doing so is by promoting greater market access and investment protection. This should continue to be a priority. Through the integration into global supply chains and the diversification of customer bases and investment in international markets, Canada can bolster its trade performance and take a leadership role in the global marketplace.

² Canadian trade penetration ratios are calculated based on Canadian export, import and GDP data from Statistics Canada. The G-7 and world ratios are calculated using data from the Economic Intelligence Unit.

Over the last decade, a shift has taken place with respect to global production patterns which has impacted the operations of Canadian companies. To be an effective and competitive exporter in today's marketplace, a firm needs to have a strong supply chain, including both domestic and offshore suppliers with which it works collaboratively and across multiple tiers in markets around the world. The automation of business processes between buyers, suppliers and their financial service providers along the supply chain also enables global businesses to reduce overall costs and increase operational efficiencies to enhance their competitiveness.

Importantly, supply chains don't involve only large multinational corporations. Smaller players are also playing an important role in an integrative trade economy. For these companies, global supply chains create opportunities to act as niche players – important links in established chains – working as suppliers to larger companies around the world.

While some Canadian industries have taken advantage of the benefits created by supply chain integration, more opportunities exist for companies to integrate and effectively manage global supply chains, ultimately impacting both their bottom line and international competitiveness.

The diversification of Canadian exports into new markets offers another opportunity for Canada to strengthen its trade performance. While Canada's traditional trading partners in the United States and Europe are experiencing aging populations, emerging markets are struggling to support population increases and growing trade flows. The Department of Foreign Affairs and International Trade (DFAIT) forecasts that one-tenth of a percent of the import market of the BRIC countries (Brazil, Russia, India and China) alone is expected to be worth \$29 billion in 2038, making Canada's share of these markets matter.³

In partnership with the Government of Canada and our public and private sector partners, EDC is able to provide the knowledge and financial solutions necessary to help Canadian companies capitalize on the wealth of opportunities in the emerging world. Through its international network and on-the-ground expertise, the corporation can help Canadian exporters break into new markets, and provide financing and insurance solutions, matchmaking activities, while trade advisory services can facilitate Canadian Direct Investment Abroad (CDIA) opportunities for Canadian companies in emerging and traditional markets alike.

The Role of EDC

In this new normal environment, ECAs are continuing to see strong demand for their solutions. In the case of EDC, Canadian companies are still facing challenges accessing credit and are looking to EDC to provide capacity. Looking ahead, EDC is well-positioned to anticipate and respond to the needs of Canadian companies.

- › The corporation has a wide network of public and private sector partners with which it can bring additional financial capacity to the market.
- › EDC's balance sheet is strong, providing it with the financial capacity needed to respond to customer needs.

³ DFAIT, State of Canadian Trade and Investment 2009.

- › EDC's international network continues to grow, providing the corporation with more opportunities to identify and connect Canadian companies to international business opportunities.
- › Internally, process improvements have increased productivity and have made the customer's experience with EDC more consistent, timely and predictable.
- › EDC's Board of Directors continues to be engaged in the strategic direction of the corporation to ensure that EDC carries out its mandate. Over the last two years, the Board has allocated additional time devoted to issues relating to international business, and opportunities for EDC to enhance its offering.

In addition, the Board provides oversight in a number of areas, including financial management, the approval of certain transactions, the establishment of internal controls, compensation, succession planning, and more general matters related to good governance. Together, this input ensures that EDC operations are effectively and efficiently managed.

Concluding the 2008 Legislative Review

EDC's contribution to the Canadian economy was recognized by the Government of Canada through its recent legislative review. At the conclusion of the review, EDC's ability to connect Canadian companies to the global marketplace was enhanced by amendments to the *Export Development Act*, which have given EDC the flexibility to open stand-alone foreign offices. The corporation will also have greater flexibility to manage its assets and liabilities, in keeping with best practices for financial institutions.

The following chapter outlines how EDC is helping to strengthen Canada's trade performance through developing knowledge and expertise on integrative trade, deploying innovative solutions that enable Canadian companies to grow into global businesses and take advantage of international opportunities and by delivering value to our customers and partners.

A Commitment to Sound Financial Management

Sound financial management provides the foundation for EDC's deployment of financial services. Through the corporation's expertise in risk management, its commitment to financial sustainability and its focus on efficiency, EDC can effectively respond to the demands of its customers today without compromising its ability to serve Canadian global businesses in the long term.

In recent years, EDC has undertaken a number of significant initiatives to expand its service offering and deliver more value to Canadian companies and to its financial partners. This has included growing its foreign network from seven in 2005 to 16 representations by the end of 2010. It has also meant investing in its network of offices across Canada, strengthening its regional presence by adding underwriting capacity, enhancing its account management capacity and strengthening relationship management with financial institutions.

These and other initiatives have contributed to the strong growth in EDC's contribution to Canadian prosperity. In 2005, the Canadian benefits generated by EDC's activity were estimated to account for \$37.4 billion. In 2009, this figure was \$61 billion, representing an increase of nearly 63% in four years. Over the same period, corporate headcount has been held relatively constant, as resources have been shifted towards customer-facing activities. Growth in administrative expenses has been in line with the growth in business performance.

Through this period of growth, EDC has maintained its focus on financial sustainability and operational efficiency. This focus continues to be important to EDC, particularly in the current environment of cost containment.

As a non-appropriation dependent Crown corporation, EDC has been asked to reflect the spirit and intent of the Treasury Board's recent freeze on operating budgets. The Business Strategy and Financial Plan will therefore identify areas in which the corporation is exercising additional prudence in managing its operational costs, as well as demonstrate how the investments it is making in its people, processes and technology will enable the corporation to continue to serve Canadian companies in an efficient manner over the planning period.

EDC'S BUSINESS STRATEGY

Introduction

The Canadian economy is navigating through a period between recession and recovery, making EDC's commitment to being a trusted partner more important than ever. As the new normal emerges and the global economy transforms, EDC is focused on being positioned to respond to the needs of Canada's global businesses.

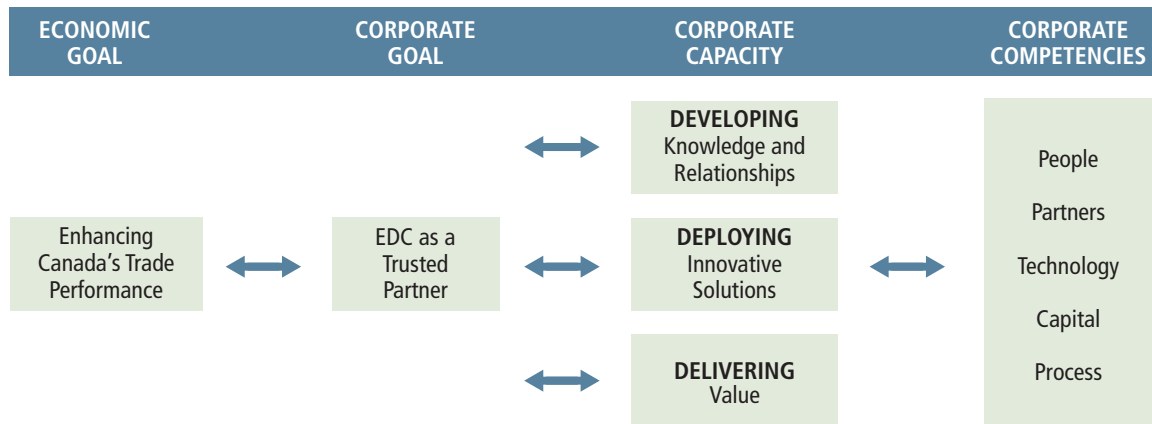
Last year the corporation adopted a new strategic framework which outlined EDC's goal of being a trusted partner within a broader, Canadian context. EDC exists to enhance Canada's trade performance, and this commitment underpins every aspect of this Business Strategy.

The 2011–2015 Business Strategy will continue to be supported by the corporation's three strategic objectives:

- › EDC will **DEVELOP knowledge and relationships** which strengthen its understanding of the market, positioning the corporation as a centre of expertise on trade and investment;
- › EDC will **DEPLOY innovative solutions**, directly and through its network of partners, which position Canadian companies for success and contribute to Canadian prosperity; and
- › EDC will **DELIVER value** to its customers and partners by providing exceptional and predictable service.

Being a trusted partner means:

- › Delivering exceptional customer experience and value;
- › Promising what we can deliver and delivering what we promise; and
- › Listening to our customers and acting on that feedback.



EDC's ability to fulfill these objectives is enabled by its people, partners, technology, capital and processes – they are the core drivers of EDC's performance. The investments made in recent years have enabled the corporation to respond to the recent economic challenges and position companies for growth and success, in an efficient, cost-effective manner.

Importantly, this framework reflects EDC's ongoing evolution into a more customer-centric organization, committed to equipping Canadian exporters with the information, intelligence, and financial solutions they need to succeed.

Over the past five years the corporation has realigned its business model around the exporter. This realignment was based on the belief that in a rapidly globalizing business environment, Canadian companies would need customized application of EDC's services in order to capitalize on new international trade and investment opportunities. Accordingly, the corporation invested heavily in the front end of its business, adding more relationship managers, regional and international representation, and then integrated its business teams along sectoral lines (rather than purely along product lines). This new organization – along with the introduction of Lean process methodology into the financing, bonding and credit insurance programs – have brought greater predictability and consistency to the customer experience.

EDC's focus on customer centricity has also transformed internal client relationships, as demonstrated by the management and governance of EDC's technology investments in support of the business strategy. Changes made to the corporation's human resources practices have fostered a cultural transformation within the organization, ensuring that EDC continues to benefit from a high-performing, engaged workforce.

Putting the customer at the centre of everything we do has changed the way we consider our solutions and how they are deployed, and has bolstered internal collaboration. Ensuring that we can continue to reinforce and harness this customer-centric mindset is therefore an important element of this Business Strategy.

Finally, this Business Strategy is aligned with the priorities set out by the Minister of International Trade in the August 2010 Statement of Priorities and Accountabilities (SPA). This guidance letter outlines the government's high-level expectations for the corporation, and helps to ensure that EDC's Plan is aligned with the government's international commerce agenda. A summary of the 2010 SPA is presented in Annex I.

2.1 DEVELOPING KNOWLEDGE AND RELATIONSHIPS

EDC's ability to respond to the needs of Canadian companies depends on its understanding of the global marketplace and the intricacies of the integrative trade environment. Continued uncertainty in the global economy makes a focus on knowledge all the more imperative.

EDC will **DEVELOP knowledge and relationships** which strengthen its understanding of the market, positioning the corporation as a centre of expertise on trade and investment.

This knowledge is strengthened by a strong network of public and private sector partners. EDC's relationships with Canadian financial institutions, foreign buyers, other Crown corporations, and its shareholder enable the corporation to leverage a wealth of resources to the benefit of Canadian global businesses.

Developing Knowledge and Expertise

EDC's trade-related expertise is a valuable resource for Canadian companies engaging in integrative trade. This makes the development of knowledge a key component of the Business Strategy. Through its on-the-ground representations in emerging markets around the world, its research on global economic trends and its ability to identify efficiencies through effective supply chain management, EDC uses its knowledge to benefit Canadian global businesses.

LEVERAGING TRADE-RELATED EXPERTISE FOR OUR CUSTOMERS

The deployment of financing and insurance solutions represents only part of the value EDC delivers to its customers. Every day, EDC account managers informally provide customers with trade information that is outside the scope of the transaction, including knowledge relating to markets, sectors, exporting challenges and opportunities, and risk mitigation options. In addition, EDC offers a number of information products for Canadian global businesses, such as the Global Export Forecast, ExportWise magazine and presentations made to Canadian exporters across the country. Customers place an extremely high value on this expertise, which has become a larger part of EDC's value proposition.

To enhance the availability, timeliness and value of its trade expertise, the corporation launched its Trade Advisory Services program in June 2010. Currently in a pilot phase, this program seeks to leverage EDC's wealth of trade-related information and structure it in an efficient, accessible way. This information is provided to EDC customers free of charge.

EDC has found that SMEs benefit most from information and education on exporting while mid-market exporters represent the greatest need for market and sector expertise, packaged information, and specialized briefings.

Through the development of internal online tools and a Trade Links section on EDC's external website, customer-facing employees have at their fingertips the information needed to answer frequently asked customer questions. For more complex queries, account managers can obtain assistance from the Trade Advisory Services virtual team, comprised of experts from all areas across EDC, including economics, financing, insurance, communications, environmental and political and human rights risks advisory groups.

In 2011, EDC will be examining the outcomes of this service offering and considering potential enhancements to its scope and structure.

DEVELOPING EXPERTISE IN SUPPLY CHAIN MANAGEMENT

The strength of EDC's trade expertise is not only dependent on the corporation's current market knowledge, but also its understanding of future trends in the integrative trade environment. To respond appropriately to our customers, EDC must recognize and respond to the needs of Canadian companies as they adapt to meet the new realities of the global economy.

As mentioned in Chapter 1, one of the major drivers of innovation and investment shaping the future of global trade finance is supply chain management. Building on its research and supply chain operations expertise, EDC has developed a portfolio of education and advisory services for Canadian companies.

On the small business end of the market, EDC is delivering workshops on how to effectively manage cash flow and risk when operating in global supply chains. The corporation will deliver approximately 20 of these workshops in 2010, including a joint initiative with the Business Development Bank of Canada (BDC) to deliver this workshop to EDC and BDC customers. This type of engagement and knowledge dissemination will continue to be a priority in 2011.

EDC also delivers a facilitated review of supply chain operations for mid-market firms. This supply chain diagnostic provides the client with feedback on their activities based on industry best practices, benchmarks and existing intelligence. The corporation will be delivering between 10 and 12 supply chain diagnostics to EDC customers with revenues between \$20 million and \$200 million over the course of 2010.

In addition to this service offering, the corporation is continuing its research on supply chain financing and working within the corporation to find innovative ways to adapt EDC's solutions to the needs of companies at different points along the supply chain. As part of this process, EDC will also continue to strengthen its relationships with supply chain platform providers in order to help Canadian financial institutions put in place technology platforms that will create greater market access for Canadian suppliers and help foreign buyers support their Canadian supply base.

EDC will also contribute to a research volume on global value chains being prepared by the Department of Foreign Affairs and International Trade (DFAIT) for release in 2011, which will include articles written by leading academics in the field of global value chains, as well as by government researchers. EDC's paper will focus on the financial management of global value chains and discuss how supply chain financing solutions play an important role in helping Canadian companies improve their access to financing, remain active participants in existing global value chains and become members of new global value chains.

Finally, to raise awareness about the importance of sound supply chain management, in 2011 EDC will launch a Canadian Supply Chain Roundtable for Canadian companies, including SMEs, in partnership with Supply Chain and Logistics Association Canada. The Roundtable will seek to identify best practices within supply chains by bringing together experts that focus on opportunities to enhance competitiveness, while creating greater efficiencies along the supply chain.

For more information on how EDC deploys its financing and insurance solutions to meet the needs of Canadian global businesses along the supply chain, please refer to page 32 of the Deploying Innovative Solutions section of the Business Strategy.

EDC AND THE ENVIRONMENT

EDC supports Canadian companies specializing in environmentally friendly technologies, products and services in a number of ways. First, the corporation supports Canadian companies specializing in environmentally friendly technologies, products and services, through its EnviroExport Program. These include waste-to-energy conversion, air pollution controls, renewable energy projects and water treatment projects, among others.

Secondly, EDC continues to support environmentally-oriented private equity funds, both domestic and international. These funds provide capital to the next generation of exporters, including those involved in environmental technologies.

Thirdly, the corporation is researching the emergence of a market for carbon credits. EDC has established a cross-functional steering committee to better understand the role of financial institutions, including other ECAs, in the emerging carbon market. It is expected that Canadian companies will be engaging with their financial institutions about monetizing carbon credits – effectively making them assets. EDC's review will therefore focus on learning how such a market is evolving, so that the corporation can consider if there is an appropriate role for EDC to play in this space.

EDC is also participating in the international dialogue at the OECD. In the effort to mobilize financing in support of climate change mitigation projects which face financial barriers, ECAs, including EDC, are continuing their efforts to identify the sectors and types of projects that should benefit from the enhanced terms currently offered to Renewable Energy projects under the OECD Sector Understanding on Renewable Energy and Water Projects. Some sectors under active consideration include the energy production sector and projects involving the use of carbon capture and sequestration technology, combined heat and power projects, and waste-to-energy projects. Other areas under preliminary consideration include fuel cells, smart grids, hydrogen infrastructure and green buildings. EDC continues to play an active role in these discussions. For more information on EDC's work at the OECD, please refer to page 41 in the corporate social responsibility section of the Plan.

Finally, further to the guidance provided in the Government's Statement of Priorities and Accountabilities, EDC will also contribute to the whole-of-government approach to support Canadian climate change initiatives and to develop mechanisms to track its support in target areas, as part of Canada's commitments under the Copenhagen Accord.

DEVELOPING KNOWLEDGE DOMESTICALLY AND INTERNATIONALLY

Relationship building is essential for gathering information and being able to take advantage of key business opportunities. With 17 offices across Canada, EDC's account managers are the face of the corporation, serving Canadian exporters in all sectors of industry, wherever they are located. Likewise, members of EDC's Canadian Financial Intermediaries group are located in select offices across Canada to maintain strong relationships with Canadian banks.

In recent years, EDC has strengthened its regional business capabilities in order to be more accessible to Canadian exporters in every region of the country, including the transfer of underwriting capacity to regional offices. By having underwriters in the field, customers receive full service at a local level.

However, EDC's network also extends far beyond Canadian borders. Our representations around the world are essential to the development of knowledge and relationships necessary to help Canadian global businesses expand into new emerging markets, diversify their customer base, and integrate into global supply chains.

By having a presence in important markets worldwide, the corporation is able to gather local market intelligence and identify new opportunities for Canadian companies. EDC's on-the-ground representatives are also able to build and maintain relationships with strategic foreign buyers, encouraging procurement from Canadian suppliers and fostering financial partnerships which will generate benefits for Canada, particularly in rapidly growing markets such as China, India, Brazil and Mexico.

As discussed in the 2010–2014 Corporate Plan, EDC has instituted a hub-and-spoke model approach to international representations. Under this approach, Regional Vice Presidents are being posted to key market hubs, complemented by strong support from locally engaged staff (LES) in other locations within the region.

EDC's LES personnel are an important part of its foreign representation model. These employees not only provide EDC with significant local market knowledge, they also represent an efficient leveraging of EDC's resources. By leveraging the right mix of LES personnel and Canadian employees, the corporation has been able to enhance its value proposition in these markets, while at the same time appropriately managing its operating expenses through the reduction of costs associated with relocation, housing and other related expenses.

EDC's international presence is being strengthened in 2010 with the opening of new representations in Istanbul, Düsseldorf, and Panama City.

The opening of the Düsseldorf representation marks a departure from EDC's exclusive focus on emerging markets. This shift in focus is in part a reflection of how supply chains are shaping global business. By establishing a presence in locations where many of the top multinational corporations are located, EDC will help Canadian companies integrate into global supply chains earlier in the process by deepening its relationships with key decision makers, thereby facilitating greater opportunities for Canadian companies around the world.

Coinciding with the opening of the Düsseldorf representation, EDC will be closing its Warsaw location in 2010 in order to make the most effective use of its resources to meet the needs of Canadian businesses. The decision to close the Warsaw representation was made following an examination of how best EDC could engage in the European market. The corporation took a similar approach in 2008 when it moved its Kuala Lumpur representation to Singapore in order to better cover the Southeast Asian market.

Following the establishment of these three representations in 2010, the corporation will be assessing its overall network to identify appropriate next steps, including which markets present the best opportunities for international representations and/or offices.

As it considers future opportunities to expand its international footprint, EDC will continue to engage with DFAIT on how to best position itself to effectively serve Canadian companies in markets around the world, including how best to apply its ability to open foreign offices outside Canada's consular and diplomatic network, further to the recent amendments to the *Export Development Act*.

As noted above, EDC's international representations play an important role in establishing relationships with foreign multinationals looking to source procurement from around the world. Through its engagement with these companies, EDC is able to identify opportunities where it can use its financial capacity to catalyze export opportunities for Canadian companies.

Through its participation in international financing syndicates for foreign companies with large procurement needs, EDC is able to identify opportunities for Canadian suppliers. The financial capacity EDC provides to these International Strategic Accounts (ISAs) encourages them to buy goods and services from Canadian companies and creates opportunities for exporters to expand into emerging and developed markets and diversify their customer base.

EDC has been expanding its network of foreign representations for over 10 years:

- 1997:** Beijing (China)
- 2000:** Mexico City (Mexico)
Sao Paulo (Brazil)
- 2002:** Monterrey (Mexico)
Warsaw (Poland)
- 2004:** Rio de Janeiro (Brazil)
- 2005:** New Dehli (India)
- 2006:** Moscow (Russia)
- 2007:** Shanghai (China)
Mumbai (India)
- 2008:** Santiago (Chile)
Abu Dhabi (UAE)
Singapore (formerly Kuala Lumpur, Malaysia)
- 2009:** Lima (Peru)
- 2010:** Istanbul (Turkey)
Panama City (Panama)
Düsseldorf (Germany)

As noted in the 2010–2014 Corporate Plan, EDC is continuing to review its ISAs with a view to identifying major foreign buyers that are likely to need EDC's financial services and present opportunities for Canadian companies to integrate into their developing global supply chains.

The following map highlights the markets where some of EDC's ISAs are located.

DEVELOPING EXPORT OPPORTUNITIES



Some of our foreign clients include CFE and Pemex (Mexico), Codelco (Chile), Vale and Petrobras (Brazil), Southern Peru Copper Corporation, PLDT (Philippines), Larsen & Toubro (India), China Gas, Sonatrach (Algeria), MTN (South Africa), Orascom Telecom Holding SAE (Egypt), EA (Russia/CIS), Abu Dhabi National Oil Company (UAE), Saudi Aramco and Saudi Polymers (Saudi Arabia), and Conoco Phillips (United States). For more information, please visit www.edc.ca.

Focusing on Partnerships

EDC's ability to meet the needs of Canadian global businesses is dependent on its strong relationships with public and private sector partners. Partnership is a longstanding priority for the corporation, and allows EDC to leverage the information and expertise from government departments, financial institutions and other Crown corporations.

As noted in the Government's Statement of Priorities and Accountabilities, EDC will continue to work with its portfolio partners and other federal organizations to ensure that Canadian companies may efficiently draw on the full range of government services dedicated to enhancing their competitiveness in a highly demanding global marketplace.

DEEPENING PARTNERSHIPS WITH CANADA'S TRADE COMMISSIONER SERVICE

Although EDC and the Trade Commissioner Service (TCS) play different roles in supporting international trade, they share a common goal in promoting and supporting the success of Canadian exporters and investors.

One of the key roles that a Trade Commissioner plays in Canadian missions overseas is that of managing relationships with members of the local business community. Their wide network of in-market contacts can be a valuable source of intelligence for EDC when it comes to matchmaking and maintaining relationships with foreign buyers.

In order to better leverage this knowledge for the benefit of Canadian companies, EDC is working with the TCS to share information about its ISAs. Through greater awareness about EDC's commercial activities in those markets, Trade Commissioners will be better able to understand how EDC's service offerings can help Canadian global companies, further strengthening their relationships with the business community. In addition, Trade Commissioners will be able to track Canadian business generated from procurement deals and introduce more Canadian suppliers to the supply chain, thereby increasing the benefits to Canada.

By working together, EDC and the TCS are able to play a greater role facilitating foreign direct investment in the host economy, and help to build Canada's commercial brand. The creation of greater synergy between the two organizations also generates benefits from a cost-containment perspective by making the most of existing resources in-market. This partnership is expected to be rolled out over the next few months at missions where there is EDC representation, beginning with a narrow focus on targeted sectors.

As part of the Government of Canada's Invest in Canada Initiative, EDC is also working with DFAIT to build awareness of its financing solutions for foreign investment. To date, the corporation has developed promotional materials and briefed more than 70 Trade Commissioners and investment officers in Canada on how EDC's financing products can help encourage investment in Canada. The corporation will continue to collaborate closely with DFAIT officials on this project going forward.

In order to strengthen Canada's trade capacity and effectively promote Canadian exporters, it is essential that both EDC and the TCS are knowledgeable about each other's respective roles and the services each organization provides.

EDC's collaboration with the Government of Canada extends beyond the Department of Foreign Affairs and International Trade. For example, when the Canadian Intellectual Property Office (CIPO) wanted to reach out to Canadian businesses, they looked to EDC as a partner. EDC's small business team was able to use the knowledge gained from this partnership to educate their customers about the importance of protecting their intellectual property and direct them to CIPO's central registry office for patents, trademarks and copyright.

EDC is therefore building on the success of its redesigned training programs for Trade Commissioners, by conducting sessions for locally engaged staff at Canadian missions in India and China. The success of this initiative will be measured by tracking whether a greater awareness of EDC's solutions that benefit Canadian businesses is generated among Canadian companies in these markets. Based on these outcomes, the corporation will consider whether to bring these training sessions to other representations abroad.

In addition to in-person training sessions, EDC has been increasingly leveraging technology to raise awareness about its services to the Trade Commissioner Service. A series of webinars are being developed to provide an overview of EDC and its product offerings. These will be available both online and on CD-ROM to make them accessible for Trade Commissioners and staff in-market, as well as those based in Ottawa. The TCS web portal is also being revamped to provide content tailored to Trade Commissioners. Through collaboration between DFAIT and EDC, the site will be road tested to ensure that the information is accessible and relevant to a Trade Commissioner audience. These initiatives represent a more cost-effective way to share information and strengthen services delivery to Canadian companies.

To further strengthen this relationship and increase mutual awareness of each other's mandate and activities, Trade Commissioner Service representatives have been conducting training sessions for EDC's LES personnel when they visit Ottawa, as well as for the corporation's small business teams, with the objective of building awareness about DFAIT's strategic objectives and passing on helpful information to EDC customers.

Finally, as noted in the Statement of Priorities and Accountabilities, EDC is engaging with DFAIT to explore whether it can play a role in supporting the Government's re-designed Investment Cooperation Program, which facilitates business investment in developing markets by cost-sharing on various activities.

STRENGTHENING COLLABORATION WITH OTHER CROWN CORPORATIONS

EDC's activities in support of Canadian companies are enhanced by its relationships with other Crown corporations including BDC, Farm Credit Canada (FCC) and the Canadian Commercial Corporation (CCC). By leveraging relationships with these organizations, EDC is able to present a wider variety of solutions to meet the needs of Canadian companies, better positioning them for success.

EDC and BDC both play important roles, working to provide Canadian companies with financial solutions enabling them to grow and compete. Through collaboration and regular engagement, EDC and BDC have been able to ensure that there is minimal overlap or duplication between their respective service offerings.

Throughout 2010, EDC and BDC continued to successfully work together for the benefit of Canadian companies through the Business Credit Availability Program (BCAP). Although BCAP will conclude in March 2011, the corporation will continue to collaborate with BDC and Canadian banks in order to ensure Canadian companies can continue to access credit capacity.

EDC and BDC have also developed a two-way system for referrals, enabling them to refer customers to the other's organization when a transaction falls outside of its respective mandate or core competencies. EDC is continuing to work with BDC to strengthen this cross-referral mechanism.

More generally, the two corporations have and will continue to identify opportunities to share knowledge and generate greater awareness of each other's service offerings. This includes strengthening product awareness across business teams in both organizations and creating opportunities for employees to collaborate at the local level. EDC and BDC will continue to explore ways in which they can better collaborate in support of SME exporters and investors in 2011.

EDC is also deepening its engagement with FCC for the benefit of its customers in the agricultural sector. A pilot program was recently launched between the two Crown corporations in Western Canada to work together on regional business development, particularly in agricultural value added industries such as horticulture and agri-food. The lessons learned from this initiative will then be applied to the rest of Canada.

In addition to the activities in Western Canada, EDC and FCC are hosting joint events with customers in Ontario and Quebec. Finally, FCC is engaging with EDC for benchmarking purposes regarding certain corporate processes.

In 2010, EDC and CCC are continuing to deepen their understanding of each other's risk mitigation practices and service offerings, and are exploring ways in which they can work together in support of customers from a market priority and underwriting perspective. Now that the Joint Market Development Initiative, a pilot program to identify potential business opportunities in Government-to-Government relations in Panama, Peru and Colombia, has reached its conclusion, the two Crown corporations are reviewing lessons learned from this pilot program in order to apply them to potential future opportunities in other markets.

MAINTAINING STRONG RELATIONSHIPS WITH THE FINANCIAL INDUSTRY

EDC's relationships with its public sector partners are complemented by the corporation's strong working relationships with Canadian financial institutions. The relationships developed in recent years played an important role during the recent credit crunch, helping to ensure that financial capacity continued to be available to Canadian companies.

EDC is continuing to invest in these important relationships in a number of ways. For example, the corporation is exploring ways to streamline the delivery of its product offerings to keep pace with the banks, including conducting due diligence on a company basis versus transaction-by-transaction basis, as well as new processes and through increased automation of processes. For more information on how EDC is improving its product offerings to better meet the needs of Canadian banks, please refer to page 32 of the Deploying Innovative Solutions section of the chapter.

In addition to its engagement with Schedule I banks, EDC is also seeking to diversify its partnerships with the Canadian financial industry by reaching out to credit unions and Schedule II financial institutions. Through the expansion of EDC's network with the Canadian financial industry, the corporation will be better able to serve a wider range of companies across the country by partnering with a wider variety of financial service providers.

EDC is also partnering with multilateral development banks (MDBs). Reduced liquidity and uncertainty in the global banking sector have encouraged MDBs to play an increasingly large role in global trade finance in recent years. Many of these financial institutions now lead the awarding and financing of some of the largest infrastructure projects in prominent emerging markets, presenting significant opportunities for Canadian companies, yet Canada's success in this area has been historically limited.

To help open doors for Canadian companies to access these contracts, EDC has developed a strategy to leverage its capacity and share risk with MDBs. While EDC's capacity to risk share with MDB's has traditionally been limited due to their Preferred Creditor Status, which places them ahead of other creditors participating in the same loan, the corporation has recently established clarity addressing how this status can be mitigated in order to deliver a potential new pipeline of opportunities for customers.

EDC plans to first target MDBs with a regional focus. Expansion of the strategy to other MDB's will be dictated by lessons learned and success with the first round target agencies.

As noted in last year's Corporate Plan, EDC has engaged with private sector insurers to temporarily add capacity to the domestic market through EDC's expanded mandate. Leveraging the success of the partnership agreements signed in 2009 to temporarily add capacity to the domestic market during the credit crisis, EDC and the private credit insurers are currently implementing agreements in regards to export credit insurance. Entitled Export Supplemental Insurance (ESI), these agreements allow private credit insurers to access EDC's export credit insurance capacity to supplement their offering to exporting customers. Some ESI agreements are already in place and operational while discussions with remaining participants are well underway.

In addition, EDC is also working with private credit insurers through the credit insurance advisory group set up by the Government to ensure there continues to be a vibrant and competitive market that meets the needs of Canadian business internationally.

DEVELOPING KNOWLEDGE AND RELATIONSHIPS THROUGH STRONGER INTERNAL COLLABORATION

As EDC is evolving towards becoming a more customer-centric organization, its increased focus on customer value is changing the way its employees work, fostering greater internal trust and collaboration.

To strengthen these internal relationships, the corporation is investing in training programs which challenge employees to view their activities through the lens of the customer. These training sessions will also encourage employees to find and eliminate process bottlenecks, increase internal and external collaboration and focus on nurturing customer relationships beyond the delivery of a product or service.

EDC is also using technology to strengthen internal engagement by providing the tools necessary for employees to support collaboration, knowledge management, and internal capability to serve EDC customers.

To facilitate information sharing and deliver more efficient service to Canadian companies, EDC is modernizing its web channels to provide a personalized web experience for customers, partners and employees to access information and services by creating a user-centric model that people can customize according to their interests and needs.

This will include flexible access to information for customers and partners to increase their understanding of foreign markets and sectors and identify their best opportunities for trade, as well as tools for self-service, allowing customers and partners to get information and services on-demand, when required (instead of having to contact someone by phone or email). In addition, EDC is expanding its social networking applications such as Twitter and Facebook to enable greater collaboration and relationship building between customers, partners, and employees.

The first phase of EDC's web channel strategy initiative is already underway, with the delivery of a new web foundation to support the corporation's internal and external sites and capabilities in 2010. Upon completion of this foundation, a redesigned employee intranet site and external portal (edc.ca) will be launched in 2011.

To deliver more real time information and expertise to customers around the world, the corporation has also created a regularly updated online version of its ExportWise publication. ExportWise.ca features all of the content in the print magazine as well as video interviews with experts on issues of interest to Canadian exporters and daily updates on trade news and events. A wide variety of research publications on economic and trade-related issues are also regularly posted on the corporation's primary website, edc.ca.

In addition to the web channel strategy, EDC is leveraging its technological resources to create greater opportunities for employees to deepen their knowledge, no matter where in the world they are located. To maximize time and resources, the corporation is shifting its focus from classroom learning at headquarters in Ottawa to a more blended learning approach involving online video tutorials, webinars and the development of blogs and wikis to foster greater collaboration between employees in different locations. This approach will also help reduce operational costs, enabling the corporation to hold its travel budget flat in 2011, as well as reduce training travel costs.

DEVELOPING KNOWLEDGE AND RELATIONSHIPS – KEY DELIVERABLES FOR 2011

The following table summarizes the initiatives and activities EDC will take on in 2011 to fulfill its role as a trusted partner.

KEY DELIVERABLES FOR 2011

- › Continued development of the Trade Advisory Services initiative
- › Refinement of Supply Chain Management service offering, including launch of Canadian Supply Chain Roundtable
- › Targeting of high-growth potential ISAs for international business development
- › Increased knowledge sharing between EDC and the TCS on procurement transactions
- › Continued engagement with other financial Crown corporations and private sector financial institutions
- › Completion of foundational structure of Web Channel architecture

2.2 DEPLOYING INNOVATIVE SOLUTIONS

EDC will **DEPLOY innovative solutions**, directly and through its network of partners, which position Canadian companies for success and contribute to Canadian prosperity.

EDC's innovative financial solutions are used by more than 8,000 companies each year, helping them compete in the global environment. These solutions are particularly important today in this period between recession and recovery. The continued economic uncertainty means that risks remain high and many companies are still experiencing challenges accessing credit on affordable terms.

The corporation has played a significant role in adding capacity to the market during the recent economic downturn through its core mandate and temporary domestic powers. As the global economy adjusts to the new normal environment, EDC's financing and insurance solutions continue to provide companies with greater predictability in managing their finances, mitigating risk and investing in future growth.

EDC's Solutions at Work

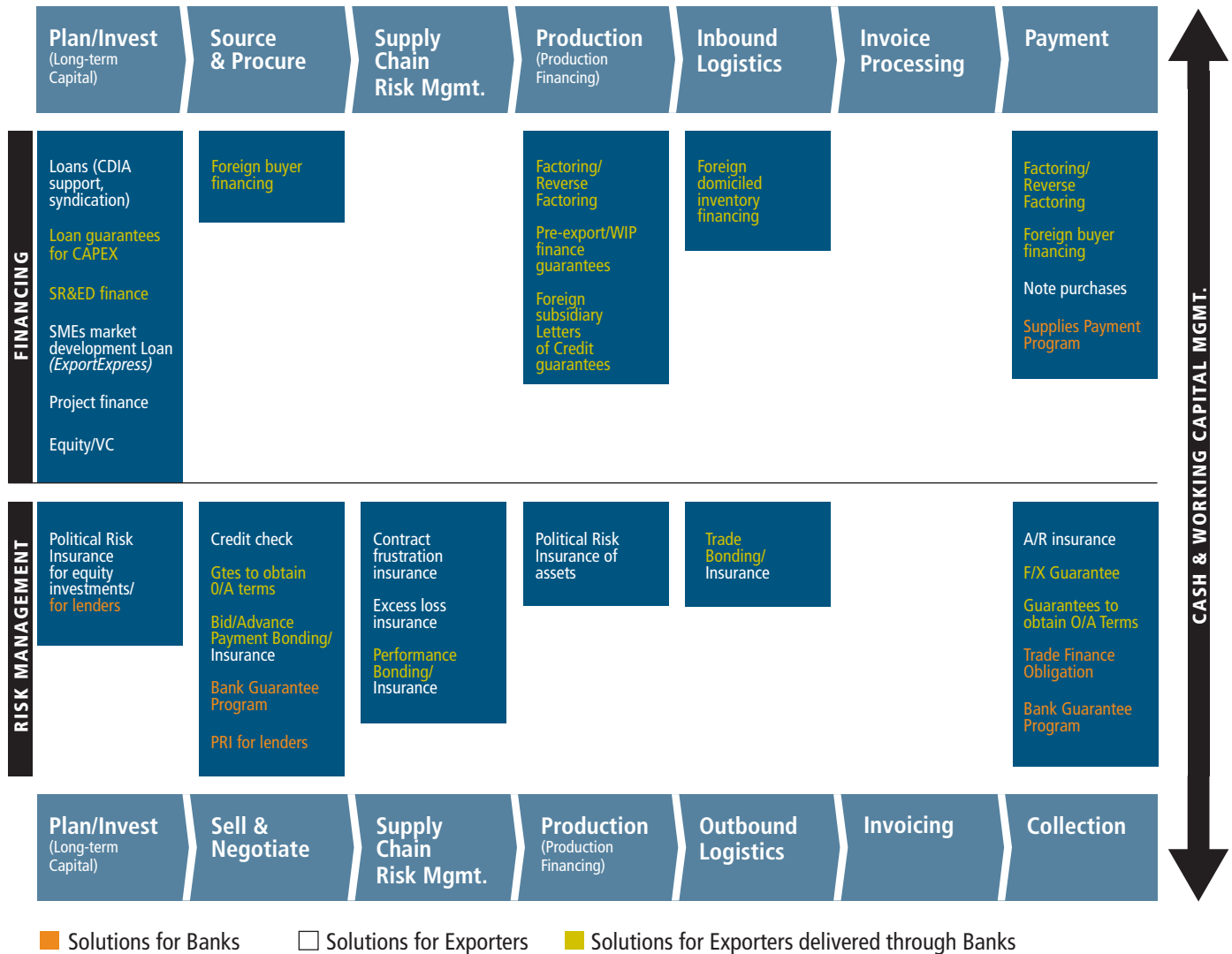
The global economy has evolved considerably over the last decade. Globalization and advances in technology have helped to transform the world into a virtual platform for companies engaged in trade. Increasingly, development, design, production and sales are occurring on a global scale along supply chains. This is the integrative trade model.

At the same time, this model has impacted how companies do business, and has affected their need for financial and risk management solutions. EDC's solutions have therefore evolved over time to remain responsive and relevant to Canada's global business.

Technology has played an important role in ensuring that EDC's solutions continue to deliver value to its customers, providing EDC with more agility in being able to identify where technology can enhance corporate performance and to develop that technology in a cost-effective, sustainable manner. This work has been complemented by its investments in its people (e.g. training, internal and external secondment opportunities, recruitment and talent management programs). Through these investments, the corporation has ensured that it has retained the requisite skills needed to develop and deploy the solutions its customers are seeking.

The following diagram illustrates the breadth of EDC's financial solutions directly and in partnership with other financial institutions and how they align not only with the needs of our customers, but with those of the financial institutions we partner with and the foreign companies we work with to facilitate trade opportunities for Canada.

2 EDC'S BUSINESS STRATEGY



The following describes in more detail how EDC's insurance and financing solutions are being used to facilitate trade and investment under its core mandate and under its temporary domestic mandate.

Insurance

Through EDC's suite of insurance products, companies are able to manage various types of risks when selling to foreign customers and investing abroad.

CREDIT INSURANCE

Accounts Receivable Insurance (ARI) continues to be the largest contributor to EDC's business volume. Given that nearly half of Canadian trade is conducted on short-term payment terms, ARI is an important tool to help companies both mitigate credit risk and leverage their receivables with financial institutions. Further, this allows them to offer their buyers more flexible payment options, including extended payment terms. While EDC continues to respond to companies' needs for credit insurance, the overall demand in 2010, as measured by application flow, has normalized to pre-crisis levels.

The corporation is also reporting that demand for its documentary credits insurance product continues to accelerate. This product provides protection for Canadian banks against the risk of non-payment of amounts owing by foreign banks.

As noted in the Statement of Priorities and Accountabilities, EDC is in the process of amending how it reports on its short term export credit insurance activities, following the conclusions of the legislative review. Going forward, the corporation will be reporting on its premiums, claims paid and reinsurance activities, in a similar manner to the reporting done by private insurance companies through the Office of the Superintendent of Financial Institutions (OSFI). EDC will be validating this new methodology throughout 2010, looking to publish its first statement early in 2011, which will report on 2010 results. Following that introductory period, EDC will look to increase the frequency with the possible introduction of interim results.

CONTRACT INSURANCE AND BONDING (CIB)

In the course of normal business, companies often need to guarantee their contractual and corporate performance to foreign buyers, regulatory authorities and suppliers. EDC's bonding products are used by companies to access capacity with sureties and banking partners to issue the necessary guarantees. Without such support, companies may have to collateralize their obligations with valuable working capital or worse yet, may not be able to obtain bonding capacity at all.

The corporation is forecasting a decrease in volume in export-related contract insurance and bonding compared to 2009, due to both a decrease in activity level and the return of capacity from banks and sureties.

On the domestic side, EDC continues to report solid demand for its capacity, primarily stemming from public-private infrastructure projects coming to fruition. This support is provided in partnership with Canadian banks and sureties. Moving forward, EDC will continue to make available to Canadian exporters bonding support for their projects located internationally as well as in Canada.

In 2009, the corporation successfully streamlined its CIB program, yielding significant improvement in turnaround times for EDC's customers. A nationwide rollout of the new program was launched in EDC's regional offices earlier this year, with all of EDC's CIB customers now benefiting from this redesigned service offering.

POLITICAL RISK INSURANCE

As companies diversify their supply and distribution networks and expand into new markets, they are often exposed to political risks that can result in significant losses. EDC's Political Risk Insurance (PRI) helps companies and financial institutions mitigate these risks by insuring overseas assets. In addition, EDC provides guarantees to financial institutions lending to sovereign or quasi-sovereign entities purchasing Canadian goods and services through its Non-Honouring Sovereign coverage.

EDC is anticipating increased demand for PRI, as global economic uncertainty continues. Against this backdrop, the corporation is exploring ways to raise awareness in the investment community of its PRI solutions, with a key focus on the mid-market segment.

Financing

EDC also enhances Canada's trade performance through offering financing solutions to Canadian global businesses and their suppliers, foreign buyers of Canadian goods and services, and to financial institutions in support of Canadian exports and foreign investments. Under its financing program, EDC provides:

- › guarantees to banks enabling them to lend more;
- › foreign buyer financing to facilitate export sales;
- › pre-shipment financing to Canadian companies in support of export contracts;
- › general corporate purpose facilities for both Canadian exporters and foreign companies;
- › project finance; and
- › equity participations.

Through EDC's financing products, Canadian companies are able to access more working capital to enable them to successfully compete in the global marketplace by bringing buyer financing capacity to the table when competing for export contracts. As well, foreign buyers are able to access financing and be connected to the goods and services provided by Canadian companies.

In today's integrative trade environment, successful global businesses diversify their customer base and production networks. The effects of the recent economic crisis have underscored the importance of Canadian Direct Investment Abroad (CDIA) for this strategy. Investing abroad lets companies improve productivity by establishing a presence in a new market, to ensure the integrity and efficiency of their business value chain. For many, particularly small and medium-sized enterprises, it is a pre-requisite to gaining access to – or becoming part of – global supply chains.

EDC's financing programs facilitate the ability of Canadian companies to engage in CDIA by providing financing for acquisitions or greenfield investments in emerging markets, and providing Political Risk Insurance to protect those investments. The corporation also helps Canadian global businesses integrate into supply chains through its financing relationships with large international buyers.

There has been considerable demand for EDC's financing solutions in the extractive sector this year, with the mining sector reporting a strong pipeline for project finance transactions. However, given the length of time for such projects to be processed from end-to-end, certain deals may not be signed until as late as 2012.

EDC is also seeing a steady flow of demand particularly stemming from EDC's ISA strategy (as referenced on page 19). Global growth beyond 2011 is expected to result in increased activity, as companies seek to increase their capital expenditures with the economic crisis behind them. Strong demand is also forecasted in the aerospace sector, and in the infrastructure and environment sector, although the lack of equity available to foreign buyers has limited the amount of acquisitions from Canadian suppliers.

The corporation continues to play a temporary role in providing trade-related financing solutions to Canadian companies in the domestic market under its expanded mandate provided through *Canada's Economic Action Plan*. By working together with Canadian banks and with BDC through the Business Credit Availability Program (BCAP), EDC was able to help viable companies through the credit crunch and subsequent recession and now plays a major role in positioning Canadian companies for recovery.

To date, the vast majority of EDC's lending under BCAP has been as part of general corporate purpose facilities for established mid-to-large exporters, often to replace a foreign lender. Through the suspension of the domestic financing regulations, EDC was able to provide Canadian exporters with financing that was not directly linked to a specific export transaction, thereby better responding to Canadian companies that are globalizing their operations or strengthening their domestic and offshore supply chains.

EDC's participation in BCAP complements capacity already available from the private sector, and often encourages other financial institutions to take on exposure.

Canadian companies are using CDIA to globalize their operations, enhance their productivity and become more competitive. The establishment of foreign affiliates is an important element of their CDIA strategies, enabling them to:

- › establish or acquire a presence in a market to serve customers more efficiently; or
- › lower production costs and input components from within their own global operations; or
- › reduce logistics costs.

EDC is well-equipped to assist companies engaging in CDIA through:

- › loans and guarantees to help finance investment abroad, and to support the activities of foreign affiliates;
- › Political Risk Insurance to protect their international investments; and
- › Accounts Receivables Insurance in support of sales made by their foreign affiliates.

EQUITY

In addition to its financing solutions, EDC can also play a valuable role in helping Canadian companies access the tactical private equity required to ensure their successful entry into the global marketplace. EDC's equity strategy positions the corporation as an "Investment Partner with Global Reach," helping to build sustainable, global Canadian companies by bridging growth capital requirements and facilitating market reach.

EDC's equity strategy is broken down into three business components: next generation exporters, middle market growth, and connect and value-add:

- › **Next Generation Exporters** – EDC makes venture capital investments primarily in favour of Canadian leading-edge, technology start-up companies that represent Canada's next generation of exporters.
- › **Middle Market Growth** – EDC provides growth capital private equity investments to enhance the growth of small and medium Canadian entities (SMEs), particularly in instances which involve exporting, international expansion and/or developing international affiliations.
- › **Connect and Value-add** – Through building a unique network of international fund investments combined with EDC's breadth of relationships with major corporations around the globe, the corporation can facilitate the business transition of Canadian technology companies and SMEs into the international marketplace, particularly in high growth emerging markets.

EDC executes this strategy through a prudent portfolio approach involving a balance of direct and fund investments across a spectrum from early-stage venture capital to buy-out, including infrastructure financing.

Looking ahead

At EDC, the concept of continuous improvement is a central element in our business model. As such, the Board of Directors challenged the corporation at its strategic session last year to find innovative ways in which to develop small and medium sized exporters into Canadian global champions and play a greater role in strengthening Canada's trade capacity.

Over the course of 2010, EDC has been exploring ways in which it can help Canadian exporters of all sizes develop into more successful players in the global marketplace. By placing increased emphasis on developing Canadian global businesses, EDC can help to boost Canadian competitiveness and enhance Canada's trade performance.

The new Trade Advisory Services program, outlined in the Developing Knowledge and Relationships section of the Business Strategy, is one of the ways EDC is using its expertise to develop Canadian global businesses. The following section highlights other initiatives currently underway which will enable the corporation to better respond to the needs of Canadian companies in an integrative trade environment.

REDESIGNING OUR CREDIT INSURANCE PRODUCTS

EDC has initiated a one to three year plan to realign and streamline its credit insurance product portfolio to meet the evolving risk management and funding needs of Canadian companies.

The credit management practices of companies are evolving, balancing the need for appropriate governance, costs, and efficiencies. For the majority of customers who are using credit insurance both as a working capital and risk mitigation tool, our global portfolio coverage policy remains the best solution. At the same time, more Canadian companies are implementing credit management governance requiring, for example, insurance for a subset of their receivables portfolio and for which the global policy may not be the optimal solution. EDC will develop predictable and efficient credit insurance solutions to address those needs; some of these solutions may involve our partners in the private market.

ENHANCING FINANCING OPPORTUNITIES FOR SMEs

EDC often deploys its financing solutions for small businesses in conjunction with Canadian financial institutions, as part of its partnership-preferred approach to adding capacity to the market. Through EDC's Export Guarantee Program (EGP), SMEs are able to access greater amounts of financing from banks.

The EGP supports a broad range of SME financing needs, including general working capital, pre-shipment financing, equipment financing and CDIA. Since its inception, the EGP is increasingly being called upon to adapt to an ever-expanding range of requirements, while at the same time encountering more challenging transactions. A consequence of this has been an increase in the amount of time required to underwrite the transactions, delaying more straight forward and smaller transactions.

In order to enhance its service delivery to banks for the benefit of SMEs, EDC is studying the possibility of pre-approval of a category of EGP transactions subject to predefined guidelines and after suitable review of the selected banks underwriting and credit criteria. This would continually strengthen turnaround times, allowing EDC to be more responsive to its customers, as well as simplify processing requirements for banks.

In 2011, EDC will further explore the risks/benefits of this initiative with the potential to set up a pilot program with one or more Canadian banks which have expressed strong interest in the arrangement, provided that the risks can be managed.

MEETING THE EVOLVING NEEDS OF COMPANIES IN GLOBAL SUPPLY CHAINS

As previously outlined, supply chain management is playing a significant role in shaping the operations of Canadian companies and their needs for financial intermediation. In order to be an effective and sustainably competitive exporter in today's marketplace, a firm needs to have a strong supply chain, including both domestic and offshore suppliers with which it works collaboratively and across multiple tiers.

Supply chains do not only redefine the way Canadian companies do business, they require new types of financing at each stage of the process, as components, services and investments flow back and forth across borders. Although not necessarily direct exporters themselves, suppliers play critical roles in exporters' competitiveness. Their access to adequate credit is therefore equally critical to bolstering Canada's trade performance.

While EDC offers a broad range of solutions for companies doing business in global supply chains, the corporation must also adapt its solutions to the changing of needs of companies involved in global supply chains. Recent EDC innovations include guarantees that permit companies to borrow against inventory held outside of Canada, and coverage for supplier payment programs that allow suppliers to receive payment earlier without affecting the terms of payment for the buyer.

EDC is also exploring ways to expand its capacity to provide import financing to Canadian manufacturers, sub-suppliers, distributors and wholesalers. EDC currently provides financing support for imports by directly financing working capital lines or providing guarantees to banks for working capital facilities through the EGP.

In addition to helping Canadian global businesses integrate into global supply chains, EDC is examining how it can better integrate the corporation as an efficient link in the value chain. EDC's cash management strategy is an important step in this evolution. This centralized, end-to-end business service will deliver all billing, receipt reconciliation and post-sales support for all of its product groups, thereby strengthening customers' experience in post-sales support.

In addition the cash management strategy will rationalize business processes and will enhance internal controls, allowing the corporation to reduce its overall operating costs. The project is currently in its early stages and will be completed over the planning period.

Sound Financial Management and Strengthened Transparency

EDC's ability to deploy its lending and insurance solutions to Canadian global businesses is dependent on the corporation's commitment to sound financial management. As part of this prudent financial management, the corporation has also been updating its own reporting mechanisms in order to comply with Canadian standards and Government of Canada guidelines.

First, the Accounting Standards Board of Canada will be adopting International Financial Reporting Standards (IFRS) as Canadian GAAP for publicly accountable entities beginning January 1, 2011. This represents a significant change to Canadian accounting standards. The corporation's implementation project has been underway since the fall of 2007 and EDC is well positioned to meet the deadline.

In addition, EDC will also be releasing its quarterly reports to the Government of Canada for the first three fiscal quarters each year and making them public within 60 days of quarter-end, in compliance with recent changes in the *Financial Administration Act*.

This quarterly reporting will come into effect April 1, 2011, and will include financial statements for the quarter and year to date, as well as narrative discussion on financial results, risks, and significant changes to operations, personnel and programs.

DEPLOYING INNOVATIVE SOLUTIONS – KEY DELIVERABLES FOR 2011

The following table summarizes the measures EDC uses to track its performance in deploying innovative solutions. These measures are discussed in further detail on pages 43–49 of the Plan.

KEY DELIVERABLES FOR 2011

› Total Business Volume	2–4% growth
› Volume in Emerging Markets	2–5% growth
› Partnership Transactions	maintain–2% growth
› CDIA Transactions	4–7% growth

2.3 DELIVERING VALUE TO EDC'S CUSTOMERS AND PARTNERS

At EDC, value is not only measured by the financial solutions that the corporation deploys to enhance Canada's trade performance, but also the manner in which they are delivered to Canadian companies. EDC's talented workforce is essential to ensuring the corporation's performance provides its customers with timely, reliable service. Service standards are the important benchmark against which to measure the quality of its service delivery.

EDC will **DELIVER value** to its customers and partners by providing exceptional and predictable service.

The investments made in the corporation's technological architecture, new head office and Lean process improvement all enable EDC to provide value to Canadian global businesses in a cost-effective manner.

Importantly delivering value also means meeting the expectations of Canadians. Accordingly, EDC's commitment to corporate social responsibility (CSR) continues to be a core element of the Business Strategy.

DELIVERING VALUE THROUGH AN ENGAGED WORKFORCE

EDC's Human Resources (HR) ensures its innovative people practices enable leaders and create a compelling work environment for employees, securing EDC's position as a centre of expertise in international trade and investment, and a top Canadian employer.

HR program enhancements significantly impact efficiencies for human resources staff as well as management across the corporation. One such example is the recent introduction of an online salary planning tool. The effective use of technology created a simplified process for managers while strengthening the link between performance and pay for employees. The project reduced processing time from over three months to just over one month and cut by 50% the hours of management time for managers at every level in the organization. In the coming planning cycle, this web-based technology will be further leveraged to ensure additional transparency and accuracy of human resources administrative cost planning.

Investments made in technology over the past several years have enabled employees to connect with corporate systems, colleagues and customers from virtually anywhere in the world, and have made EDC more accessible to its customers. This enhanced technical capability is also evident in the dramatic shift to e-learning. We have improved our on-line courseware development capacity by streamlining the process and are now able to turn around the conversion of high-demand product training programs in half the time. With the goal of 75% of courses offered in an alternate

delivery format by end of 2012 we will see increasing gains in terms of reduced travel and time away from the office. No longer just a strategy for regional and international employees, the Learning Management System (LMS) and a host of online or virtual courses are increasing our learning and development reach to all students who can learn anytime, anywhere.

Additionally, now that the corporation has become fully mobile with the transition to laptop computers and installation of wireless technology in EDC's head office, EDC is updating its flexible work arrangements policy framework to reflect the corporate goal of having significantly more employees working outside of our Ottawa headquarters and closer to our customers, as well as mobility within the building. These policies and practices will be foundational in positioning us for the move to a new building and a new workplace culture.

As EDC continues its journey towards becoming a more customer-centric organization, it will require changes in the way we work. The training programs referenced on page 24 are a key component to ensuring that EDC is able to sustain the principles of Lean methodology and retain its focus on continuous improvement.

EDC's people drive the corporation's performance and its ability to deliver value to Canadian exporters and investors. As part of its commitment to attracting and retaining a highly engaged workforce, the corporation conducts a biennial Employee Opinion Survey to encourage employees to share what drives their performance and what key areas can be strengthened. One of the areas highlighted by employees in the 2009 Employee Opinion Survey was the promotion of a "work happens anywhere" mentality at EDC.

EDC continues to be recognized externally for its people programs and practices. The corporation is frequently called upon to speak about its innovative programs across Canada and to partner with other corporate HR teams in sharing best practices. This recognition and reputation for a strong Employee Value Proposition attracts and reinforces an employee demographic that is dynamic, educated, flexible and engaged. HR programming must continue to ensure that EDC remains an attractive and viable employer for current and future employees.

Based on the results of the corporation's 2009 Employee Opinion Survey, EDC remains among the top employers in the financial services industry, across government departments/Crown corporations and compared to companies throughout North America.

EDC's Employee Value Proposition

- › **Job Impact** – our work is fundamental to the success of Canadian exporters and as such, each and every employee's contribution helps create enduring prosperity for Canada.
- › **Development Opportunities** – we seek out and embrace personal and professional development, and the invaluable lessons that come from experience.
- › **Respect** – each one of us deserves respect and makes a difference.
- › **CSR** – we are committed to the principles of corporate social responsibility from maintaining the highest levels of global business practices to supporting the communities in which we live.
- › **Co-worker Quality** – we offer you the opportunity to work with colleagues who have incredible dedication, energy and talent and who continue to deliver for Canadian exporters and investors.

DELIVERING VALUE BY IMPROVING SERVICE DELIVERY PROCESSES

EDC's ability to be a trusted partner to its customers is guided by its commitment to continuous improvement. A central element of this process is identifying ways to create greater efficiencies within the corporation in order to enhance service delivery processes and manage costs.

Through the introduction of "Lean Process Methodology" four years ago, EDC has been transforming the way it works to further strengthen the quality of its products and services, delivering better value for the customer. Lean presents opportunities to eliminate waste, shorten wait times and make the EDC experience more predictable and consistent for its customers.

Building on the success of the process improvements to the financing and bonding programs, EDC is now introducing Lean practices into other areas of the corporation.

SERVICE STANDARDS

To sustain the improvements made to EDC's service delivery processes, the corporation put in place a series of service standards in 2009 to establish targets for timely and predictable turnaround times for deliverables, as well as protocols for communicating with the customer.

EDC's service standards reflect the voice of the customer and allow employees to consider their activities from the customer's perspective. By putting in place clear commitments on what we can offer and by when, EDC is able to act as a trusted partner to its customers, colleagues and partners.

EDC is tracking its performance against these standards through the use of corporate dashboards. Updated on a regular basis, these dashboards aggregate and track customer feedback so that EDC employees can measure their performance against the service standards.

Going forward, EDC will be institutionalizing these dashboards and fora into everyday business activities to ensure employees have a clear understanding of how their activities impact overall customer satisfaction.

A NEW HEAD OFFICE

Another important element of EDC's cultural transformation is its new head office project. In 2008, the corporation decided to consolidate all Ottawa-based staff into one building to reduce the corporations' overall operational costs and enable EDC to grow in a more flexible manner. In addition, rents associated by the new head office will be fixed for the next 20 years, representing significant future savings for the corporation.

Scheduled for completion in 2011, EDC's new head office will be a Leadership in Energy and Environmental Design (LEED) gold standard certified building and will become a symbol of the new EDC.

EDC's Service Standards are:

- › **Predictability:** Provide predictable turnaround time on deliverables.
- › **Value:** Deliver value to customers based on our product offering.
- › **Communication:** Provide timely turnaround time on communications.

EDC's new head office will feature enhanced technology including videoconferencing facilities and wireless tools that will support flexible work arrangements, increased mobility and collaboration. This technology will enable the corporation to create greater efficiencies, and will hold travel costs flat, without sacrificing EDC's high standards of customer service.

LEVERAGING TECHNOLOGY TO DELIVER VALUE

Major parts of the Business Strategy would not be possible without the supporting technology and business architecture. In order to meet the needs of Canadian global business, EDC's technology strategy needs to be secure, stable, efficient and well aligned with the corporation's plans and activities.

As in past years, EDC's Corporate Information Technology (IT) Strategy demonstrates close alignment with its business goals and objectives, supported by a strong governance framework. EDC's IT Strategy in 2011–2015 will focus on initiatives that:

- › Develop an information architecture and tool set which enable self-service business intelligence and reporting and which support knowledge sharing within EDC, based on data and document management disciplines.
- › Deliver a simplified business and application architecture by building common services and platforms which align with structured end-to-end processes and which enable more seamless connectivity between EDC's business and the supply chains of its external stakeholders.
- › Deploy a web channel which complements EDC's other channels in delivering information and transactional services, with portals and content tailored to its stakeholders' perspective and requirements and with tools that enhance collaboration.

To support EDC's corporate strategy, a number of initiatives have been identified to form part of the Business Architecture Redesign (BAR) program, which will modernize EDC's current business applications and build an architectural foundation that will enable the corporation to strengthen its partnerships with its customers, provide employees with quicker and easier access to the information required to make decisions, and simplify cross-functional team collaboration.

The BAR program is well under way, with a key deliverable, the first phase replacement of the Credit Risk Rating Engine (CRRE), being implemented in 2011. The CRRE project will update and standardize EDC's credit risk methodologies and processes with respect to gating, assessment, rating, selection, authorization, and portfolio management. It will address gaps in EDC's existing risk rating methodologies and processes, and streamline data flow to ensure effective and efficient information is received on a timely basis.

The modernization of EDC's technological resources represents a crucial investment for the corporation. By upgrading business application architecture, EDC is able to be more responsive to the customer as well as address inefficiencies in dated systems, resulting in significant savings in future hardware, software and business process costs (for further information, please refer to section 3.10 of the Financial Plan).

In coordination with the BAR program, a similar modernization of EDC's information architecture, involving both data and documents, has been initiated in 2010, in order to address inefficiencies and better leverage EDC's knowledge assets. This includes the modernization of EDC's web channels (outlined on page 25 of the Business Strategy) as well as the implementation of new Electronic Documents and Records Management technology and processes (EDRM), to be launched in 2011 in advance of EDC's move to the new head office. By improving the way EDC shares and locates documents, the corporation is able to run more effectively, as well as satisfy all legal requirements (e.g. the *Access to Information Act*).

EDC's records management team is currently developing a functional classification system to address the needs of various business teams and is revising EDC's corporate retention periods based on business and legislative requirements.

EDC continues to have a stable and secure infrastructure guided by sound technology and architectural principles. Through continuous improvement and Lean disciplines, technology solutions are delivered using agile project development methods. Business Process Management disciplines are used with workflow technologies to enable more efficient business processes. Using project and portfolio management methods while regularly reporting against all technology projects, EDC efficiently delivers technology solutions to support its customers and partners. The reuse of packaged systems (plug and play) assists in controlling development and maintenance costs. In addition to leveraging internal workforce capabilities and capacity, EDC partners with IT service providers to ensure optimum availability of information technology resources. Finally, EDC continuously reskills its internal technical workforce while supplementing specialized skills with contract resources.

DELIVERING VALUE THROUGH CORPORATE SOCIAL RESPONSIBILITY

EDC's core social value lies with the benefits the corporation generates for Canadian society through its financing and insurance solutions. By providing financial intermediation to Canadian companies, EDC helps to create wealth, jobs and strengthen Canada's standard of living.

EDC's CSR activities must therefore not be considered in isolation from the other activities profiled in the Business Strategy, but rather as an integral part of our larger economic goal of enhancing Canada's trade performance.

Canadian companies operate successfully in virtually every industry sector and have established a reputation, both in Canada and abroad, for conducting business in a fair, open and responsible manner. As a partner that facilitates international business for Canadian companies, EDC shares responsibility for that reputation, and seeks through its operating principles and policies to support and enhance it.

Further to the guidance in the Government's Statement of Priorities and Accountabilities, EDC continues to strike an appropriate balance between meeting the expectations of Canadians for socially and environmentally responsible practices while maintaining a level playing field for Canadian exporters.

To ensure it remains in step with other global players and in keeping with Canada's international agreements, EDC is continually evolving its CSR practices in step with other global players and in keeping with Canada's international agreements. EDC will be conducting a strategic review of its CSR practices in 2011, in order to benchmark against the standards of its peers. EDC will examine the CSR practices of other export credit agencies and Equator Principle-compliant (a financial industry benchmark for determining, assess and manage social and environmental risk in project financing) financial institutions in the private sector. The corporation will also engage with a variety of stakeholders, including non-governmental organizations (NGOs), as part of the review process. EDC will use the results of this review to set critical medium-term priorities for the corporation and ensure it reflects the best practices of other export credit agencies.

EDC's stakeholder engagement is supported by EDC's CSR Advisory Council, comprised of leaders in CSR representing civil society groups, industry, business, and academia. The advisory council meets twice a year to provide advice and guidance to EDC's Senior Management on matters related to the evolving best-in-class CSR practices. In addition, EDC's Board of Directors regularly engages on issues relating to CSR, including how EDC's practices can evolve in a balanced fashion.

In 2009 EDC initiated a review of its Environmental Policy, Environmental Review Directive (ERD) and Disclosure Policies, which together comprise the corporation's framework for environmental assessment and disclosure.

Objectives of the Policy review were to simplify and restructure the Environmental Policy in order to clarify EDC's environmental commitments and environmental review processes, as well as to ensure that the corporation's policies and procedures are in line with the international environmental and social risk management practices generally adopted by ECAs and EDC's commercial partners. The policy review also sought to identify related adjustments to the disclosure of environmental and social information pursuant to EDC's Disclosure Policy arising from this review.

The revisions were made following a public comment period in 2009, which included consultations with EDC's clients and civil society. The revised policies address our customers' requests for clarity, our stakeholders' desire for greater transparency, reflect international standards, and ensure that the full range of transactions EDC supports continues to be managed in an environmentally and socially responsible way.

The revised policies were released in late 2010 and will be implemented in 2011. Highlights of the policies include:

- › renaming the Environmental Policy and ERD as the Environmental and Social Risk Management Policy and Environmental and Social Review Directive to reflect EDC's commitment to encompassing social issues in its environmental reviews of projects;
- › making the International Finance Corporation's (IFC) Environmental and Social Performance Standards EDC's dominant reference standard for environmental and social project performance in developing countries;

- › adding a section which outlines EDC's strategy with respect to climate change risks and opportunities in order to understand and assess the carbon and climate risks and opportunities associated with their business; and
- › providing increased disclosure of Category A projects through Project Review Summaries containing information on project categorization, rationale for support and the salient environmental and social issues reviewed.

The roles and responsibilities of corporations in the area of human rights is an evolving issue area for all global businesses, including EDC. In 2009, the corporation broadened its understanding of how countries and companies around the world evaluate and manage human rights issues in business by implementing a new standardized process for human rights assessments of transactions. The corporation is now training business teams in markets and sectors where there is a higher risk for human rights violations about the methodology to ensure that employees are aware of how and when to apply it.

EDC continues to engage with its OECD counterparts as part of the Export Credit Group in the ongoing OECD review of the 2007 Revised Council Recommendation on Common Approaches on the Environment and Officially Supported Export Credits, which establishes environmental and social requirements for officially supported export transactions. Originally scheduled for completion in 2010, the review has been prolonged in an effort to align closely with the finalization of the IFC's revised Performance Standards, a key benchmark within the Recommendation.

EDC is also closely following the work of Professor John Ruggie, the UN Special Representative of the Secretary General on human rights and transnational corporations and other business enterprises. EDC was one of a handful of export credit agencies which participated in Professor Ruggie's study on how to apply international human rights standards to corporations. As the international community continues its dialogue on appropriate human rights standards for corporations, EDC will continue to evolve its human rights assessment standards.

EDC continues to make community investment a priority, both in Canada and around the world. As mentioned earlier in the chapter, investing in our communities is an important part of EDC's employee value proposition.

In 2010, the corporation is reviewing its community investment initiatives, including its Youth Education programs and scholarships, volunteer charitable donations policy and United Way Campaign, in order to ensure greater alignment to strategic goals and improved coherence among various initiatives.

In addition to its ongoing community initiatives within Canada, EDC is also continuing its four-year community investment partnership with CARE Canada for small business enterprise development and micro-financing-related projects in emerging markets. To date, the corporation has sent employees to participate in CARE enterprise projects in Peru and Zambia, as well as assignments at CARE headquarters in Ottawa. In 2011, the corporation will be sending employees to a new posting in Peru and will add Indonesia as a third CARE project destination. EDC will be reviewing its participation in CARE Canada's Global Community Investment Initiative as part of the 2011 CSR strategic review.

Underpinning all of EDC's CSR activities is its commitment to and promotion of business ethics. EDC's Code of Conduct is entrenched in EDC's core values and it expects a similar commitment to ethics from the companies with which it does business. In 2010, EDC will participate alongside other Canadian government entities in the OECD peer review on international anti-corruption commitments.

DELIVERING VALUE TO EDC'S CUSTOMERS AND PARTNERS – KEY DELIVERABLES FOR 2011

The following table summarizes the initiatives that EDC will take on in 2011 to fulfill its role as a trusted partner and the measures it uses to track its ability to deliver value.

KEY DELIVERABLES FOR 2011

- › Maintain/Improve Net Promoter Score
- › Implementation of Lean initiatives for business development, Advisory Services and ARI teams
- › Institutionalization of Corporate Dashboards
- › Modernization of EDC's business applications through the BAR program
- › Value for Money : Total Cost of Ownership 45:55
- › Conduct CSR Strategic Review
- › Maintain/Improve Employee Engagement and Retention

2.4 MEASURING SUCCESS

The business strategy presented in the Corporate Plan outlines how EDC is working towards enhancing Canada's trade performance. EDC's measurement program enables the corporation to track its performance against each of the three strategic objectives presented in the Business Strategy. It also estimates how EDC's activities contribute to the benefit of Canada's economy.

The following is a description of the measures included in the 2011–2015 Corporate Plan and how the corporation is forecasted to perform in 2010 and 2011.⁴

NET PROMOTER SCORE

The Net Promoter Score (NPS) continues to be the measure against which EDC evaluates its success in customer satisfaction and loyalty. NPS measures EDC's reputation and the likelihood that its customers would recommend the corporation to business colleagues.

Improving market conditions and the continued implementation of Lean initiatives throughout EDC's financing, CIB and insurance programs, as well as the corporation's new service standards, are contributing to improved performance under this measure in 2010 and into 2011.

EDC is forecasting it will improve its NPS score for 2010, with a projected score of 74.0. This forecast places the corporation in the top 10% of North American business to business industries based on overall satisfaction.

As part of the corporation's ongoing commitment to customer centricity, EDC is aiming to maintain its NPS score, with a projected range from 70.0 to 77.0 for 2011.

CUSTOMERS SERVED

Customers Served tracks the number of Canadian companies currently benefiting from or being served through one of EDC's solutions. This number will not be included as part of EDC's corporate scorecard for 2011–2015 in keeping with the corporation's shift in focus from growing its customer base to maintaining its customer levels through the delivery of exceptional service.

Last year, EDC served a record number of customers, as companies turned to the corporation during the credit crunch to help facilitate their financing and insurance needs. The corporation served 8,469 customers in 2009, 2,270 of whom were new to EDC or had not used our services recently.

⁴ Please note that the forecasts described in the following section are based on projections finalized in October and may not necessarily reflect actual year-end outcomes for 2010. Official results for 2010 will be publicly available as part of EDC's 2010 Annual Report, to be released in Spring 2011.

EDC is expecting its customer base will return to more historic levels in 2010, particularly with respect to SMEs who used EDC's services in response to the economic crisis. For example, many of the companies are choosing to once again self-insure now that the economy is on a path to recovery or to return to the private sector as capacity returns to the market. Another factor contributing to this decrease is the overall decline in the exporter population over the past few years. The corporation is forecasting it will serve approximately 7,850 customers in 2010, and intends to maintain this customer base in 2011.

MULTIPLE PROGRAM USERS

One way EDC is better able to service its customers is by exposing them to the breadth of its service offerings. EDC measures its success in meeting the various needs of its customers through the number of Multiple Program Users (MPUs).

As more customers turned to EDC in 2009 in response to challenging economic conditions, the corporation generated greater awareness about the range of its service offerings. As a consequence, EDC is forecasting that it will exceed its projection of 4% growth for 2010 with 1,100 MPUs.

As the corporation continues to focus on existing customers through its relationship-based account model, Canadian companies will be in a position to gain greater understanding of EDC's products. A growth rate of 3% is projected for MPUs in 2011.

TOTAL BUSINESS VOLUME

Business volume is a planning variable that can be affected by a number of factors, such as fluctuations in foreign exchange rates, commodity prices, and large transactions and insurance policies.

The corporation is expecting to facilitate \$84.4 billion in lending and insurance in 2010, representing 2% growth, which is slightly less than the 4% growth rate projected in last year's Corporate Plan. A higher than forecast Canadian dollar is the primary driver of this weaker than expected growth.

In 2011, EDC is anticipating a further 2% growth in total business volume to \$86.2 billion.

As mentioned previously, EDC's temporary participation in the domestic market is expected to conclude in March 2011.

VOLUME IN EMERGING MARKETS

As noted in the Planning Environment chapter, emerging markets present significant opportunities for Canadian companies to diversify their customer base and take advantage of growth opportunities as host economies develop. EDC is well-positioned to help Canadian companies take advantage of opportunities in emerging markets through its trade finance and risk mitigation solutions.

EDC is forecasting \$23.7 billion in VEM for 2010, representing 27% growth. In addition to the signings of major transactions, this strong performance is being driven by demand for EDC's documentary credit insurance coverage and financing for international strategic accounts.

Emerging markets will continue to be a priority for EDC in 2011, with continued demand in the above areas, contributing to a projection range between 2% and 5% growth projected for next year. When adjusted for the regional and industry profile for EDC's business volume and accounting for large non-recurring transactions which occurred in 2010, this growth rate aligns with the growth projected for Canada's exports to emerging markets.

FACILITATING CANADIAN DIRECT INVESTMENT ABROAD

The facilitation of CDIA is another way EDC measures its success in strengthening Canada's trade capacity. CDIA transactions are tracked under the Financing and Political Risk Insurance programs in support of Canadian companies engaged in CDIA, as well as support provided to the foreign affiliates of Canadian companies under the Accounts Receivable Insurance program.

With the economic recovery still uncertain, many Canadian companies expected to focus on strengthening their balance sheets before considering investment opportunities abroad. This is particularly true for large companies in the extractive sector, whose investments represent a considerable amount of volume. EDC is forecasting CDIA volume to be relatively flat this year, with \$4.1 billion forecast for 2010. CDIA volume is projected to growth by approximately 7% in 2011, as recovery continues and companies diversify into new markets, taking advantage of a high Canadian dollar.

On the transaction side, EDC is forecasting it will facilitate approximately 550 CDIA transactions in 2010. This increase is primarily the result of an increase in the number of foreign affiliates covered under the ARI program. Transportation and Resources sectors are also seeing an increase in the number of CIDA transactions facilitated, partly as a result of greater awareness of its service offering.

As the economy continues to recover, Canadian companies will be in a better position to engage in CDIA activities and will be looking for credit and risk mitigation. As such, the corporation is projecting a range from 4% to 7% growth in CDIA transactions for 2011.

PARTNERING TO SERVE CANADIAN COMPANIES

EDC's ability to effectively serve Canadian companies is enhanced by partnering with private sector players (banks, insurance companies, sureties, and brokers). Partnerships enable EDC to serve Canadian companies through their established financial intermediaries, allow the corporation to share risk and provide credit enhancements to banks and sureties, making it more attractive for them to extend coverage or financing to customers.

EDC is expected to far exceed its projection of 3% growth, with a forecasted partnership volume of \$24.1 billion in 2010. This has been primarily driven by strong demand from private financial institutions for its documentary credit insurance policies. Likewise, although EDC had planned to maintain a flat number of partnership transactions in 2010, that number is forecasted to increase to approximately 5,400 in 2010.

Although EDC's strong performance under these measures comes partly as a result of its participation through BCAP and domestic partnership agreements to add capacity to Canada's domestic surety and credit insurance markets, its continued success can be primarily attributed to its "partnership preferred" approach to doing business through its export mandate as well.

Through its participation in syndication and club transactions alongside banks, EDC is able to share risk and add capacity needed to facilitate international business opportunities for Canadian companies. EDC is projecting approximately 15% growth in partnership volume in 2011 and that it will maintain or slightly increase its current level of partnership transactions in 2011.

LEVERAGING TECHNOLOGY TO SUPPORT THE BUSINESS STRATEGY

EDC measures the allocation of IT dollars between what is known as "Value for Money" initiatives (VfM) and "Total Cost of Ownership" (TCO). VfM refers to discretionary technology investments that drive business value, whether by enhancing customer service, corporate efficiency, employee satisfaction or revenue. TCO refers to technology investments that are either non-discretionary in nature or relate to maintaining core technology assets and infrastructure. Organizations regularly review their optimal investment allocation based on their technology requirements at the time.

For 2010, a VfM:TCO target of 53:47 was set to reflect EDC's commitment to focusing its technology investments on initiatives intended to grow and transform the business. TCO costs are expected to be somewhat higher than anticipated – due to the resources dedicated to preparing EDC's infrastructure for next year's move to a new head office – we are forecasting a VfM:TCO outcome of 41:59 for year end 2010 and are projecting a ratio of 45:55 for 2011.

However, it is expected that the more modern infrastructure included in the new building will facilitate more effective management of core costs and that, as a result, in 2012 EDC will revert to its normal VfM:TCO ratio of 50:50.

MEASURING FINANCIAL PERFORMANCE

EDC measures its financial performance in three areas: the Efficiency Ratio (ER), net income and return on equity (ROE). These measures track the corporation's ability to deliver value to its customers, partners and shareholder, through sound financial management.

The ER measures the operational efficiency of the corporation as investments in people and technology are required to keep pace with the growth and complexity of the business. It is the ratio of net administrative expenses to net revenue, excluding debt relief.

In 2010, EDC is forecasting an ER of 25.2%. This result is less favourable than planned due to a decrease in net financing and investment income, combined with the lower than planned loan guarantee fees and insurance premiums. EDC is forecasting an ER of 26.1% in 2011.

EDC's total earnings are reflected in its net income, the net result of the financing, investment, insurance and risk management activities of the corporation. In 2010, EDC is forecasting a net income of approximately \$1.6 billion, resulting primarily from a significant reversal in provisions. In addition, business volumes in the first half of the year were lower than expected, and new growth has been offset by income generated through loan repayment.

EDC is expected to earn lower net income in the 2011 to 2015 period due to the non-recurring loan allowance reversals in 2010. Net income is projected to be \$611 million in 2011.

Return on Equity (ROE) measures EDC's profitability by calculating the corporation's net income after providing for future losses by way of provisions. It takes into account both the profitability of the corporation and the risk of the business undertaken.

ROE is forecast to be 19.5% in 2010 as a result of higher net income for the corporation. In 2011, ROE is forecasted at 7.3%.

A further discussion of EDC's financial performance is available in Chapter 3 of the Plan.

LEVERAGING PEOPLE

EDC's people strategy aims to attract and retain a highly qualified workforce in order to successfully implement its business strategy today and in the years to come. How well this is accomplished is measured by employee feedback on their engagement to the organization and by an employee retention rate.

EDC conducted its most recent employee survey in 2009 on a wide range of issues affecting the work environment and employee engagement, with a goal to rank at a level similar to other high quality organizations on the key drivers of employee engagement, as defined by the Hay Group. The overall total EDC engagement index was more than 10% more favourable than the North American norm and represented a 6% improvement from the last survey in 2007.

Survey results indicated that this improved score was driven by an enhanced telework policy, streamlining of approvals, greater innovation to improve employees' ability to respond to customer needs, and enhanced cooperation among business units.

EDC has had success in employee retention over the years, but market conditions are expected to remain competitive for the skills that we have in-house. Our 2009 retention rate was 92.7% and a target of being equal to or exceeding the Conference Board retention rate for financial institutions was set. The corporation expects to meet this target in 2010 and 2011.

The Creation of Benefits for Canada

The corporation's business strategy is built around two overarching goals: to be a trusted partner and to enhance Canada's trade performance. As such, every transaction that EDC undertakes generates tangible benefits to Canada.

By facilitating the exports and investments of Canadian companies, EDC helps to grow Canadian businesses, which in turn creates Canadian jobs and contributes to Canada's economic growth – thereby improving Canadians' standard of living.

For some time, EDC has estimated the benefits to Canada's economy of the exports and investments it facilitates. Some of these benefits are quantifiable – like the Canadian content or jobs supported by an export sale or foreign investment – while others are more subjective in nature. Indeed, as more Canadian companies participate in integrative trade, the nature of the Canadian benefits generated by their activity is changing. For example, securing a world product mandate or participating in the supply chain of a multinational company can be key to a company's ongoing business. These benefits are not readily quantifiable today.

Other less tangible benefits derived from EDC's role fall under the objective of enhancing Canada's export capacity. This means helping small companies participate in integrative trade and using our financial capacity to support riskier business, often in new emerging markets.

The Canadian Benefits Scorecard for the past three years is below.

As global commerce has evolved, so has our Canadian benefits policy. The framework EDC uses today not only takes into account the Canadian content of an export, it also recognizes the beneficial effects of R&D spending, securing a world product mandate, or participating in the supply chain of a multinational company.

By facilitating the exports and investments of Canadian companies, EDC helps to grow Canadian businesses, creates Canadian jobs and contributes to the economic growth of our country.

CANADIAN BENEFITS SCORECARD

	2007	2008	2009
Total volume facilitated (\$B)	70.0	85.8	82.8
% of exports facilitated	14	14	18
SME – number served	6,204	6,866	6,886
SME – volume (\$B)	18.8	17.8	12.6
Volume in emerging markets (\$B)	16.8	22.0	18.7
Contribution to Canada's GDP (\$B)	51.5	59.3	61.0
Contribution to Canada's GDP (%)	4.2	4.4	5.0
# of jobs supported	578,434	572,523	642,465
% of national employment	3.4	3.3	3.8

EDC's Scorecard

The following table depicts EDC's scorecard for 2011. It presents the corporation's key measures of success and planned performance for the coming year.

EDC'S SCORECARD				
PERFORMANCE MEASURES	2009 ACTUAL	2010 PLAN	2010 FORECAST	2011 PLAN
Net Promoter Score	68.6	maintain	74.0	70.0–77.0
Total Business Volume (\$B)	82.8	4% growth	84.4	2–4% growth
Volume in Emerging Markets (\$B)	18.7	1% growth	23.7	2–5% growth
CDIA Transactions	494	3% growth	550	4–7% growth
Partnerships Transactions	5,000	maintain	5,400	Maintain–2% growth
VfM to TCO Ratio	55:45	53:47	41:59	45:55
Financial Measures				
Efficiency Ratio (%)	22.9 ¹	20.4	25.2	26.1
Net Income (\$M)	258	353	1,607	611
Return on Equity (%)	3.9	5.3	19.5	7.3
Employee Measures				
Employee Engagement	–	Rank same as high-quality institutions	–	Rank same as high-quality institutions
Employee Retention (%)	92.7	≥CB rate	Meet objectives	≥CB rate

1. In 2010, the Gross Efficiency Ratio was replaced by the Efficiency Ratio. This number has been provided for 2009 for comparison purposes.

THE FINANCIAL PLAN

Introduction

As Canadian global businesses navigate through this uncertain economic environment, EDC is continuing to see strong demand for its services. EDC's risk appetite and strong capital base have enabled the corporation to deploy its lending and insurance solutions to Canadian companies throughout the business cycle. As the economy continues its path towards recovery, long term financial sustainability and a focus on efficiency will remain a priority.

The preceding chapters have laid out both the environment in which Canadian companies are operating and the role EDC is playing to address their needs for financial intermediation. EDC's commitment to sound financial management enabled the corporation to play a significant role in helping Canadian companies through the economic downturn. This commitment continues to guide the corporation as the economy recovers.

The Financial Plan presents key business assumptions and flowing from them the projected financial performance including projected consolidated statements of income and comprehensive income, balance sheet, statement of changes in equity, cash flow statements, economic capital, and performance ratios, as well as the planned capital expenditures for 2010–2015. The borrowing strategy is also laid out in this chapter. Projected consolidated income statement and balance sheet are also provided for the corporation's subsidiary, Exinvest Inc.

As discussed in Chapter 2, on January 1, 2011, International Financial Reporting Standards (IFRS) will come into effect for EDC and in accordance with Treasury Board guidelines the 2011 Corporate Plan is being presented on an IFRS basis. The 2010 forecast is being shown under both Canadian GAAP and IFRS, for comparison purposes, while the years 2011 and beyond are shown on an IFRS basis only.

3.1 ASSUMPTIONS

The financial plan is based on a series of assumptions, all of which have an impact on the corporation's business activity and financial performance. First, as 2010 results are not yet available, EDC prepares a forecast of its expected business activity and, based on that forecast, develops projected financial statements. The 2009 actual results are also included for information purposes.

Second, the 2011 Plan is based on the current business strategy and on certain key assumptions, including those with respect to business volume, foreign exchange, risk profile, interest rates and administrative expenses. Each of these assumptions is discussed in the following pages. As is the case with any assumption, each is subject to volatility. This potential for volatility continues to be amplified given the current economic climate and related unpredictability. Any changes to the business strategy or to the underlying assumptions may materially impact the projections over the planning period.

Business Volume Assumptions

As discussed in the Planning Environment chapter of the Plan, the global economy is at a crossroads between recession and recovery. EDC is continuing to play a significant role in providing capacity to Canadian global businesses looking for competitively priced lending and insurance solutions.

The Corporate Plan was prepared with the underlying assumption that the temporary domestic powers granted to EDC will be concluding in March 2011.

In 2010, the corporation is forecasting that total business volume will increase by 2% to \$84.4 billion, as opposed to the 4% increase previously projected in the 2010–2014 Corporate Plan. Given that the majority of EDC's business volume is recorded in U.S. dollars, fluctuations in the Canada-U.S. exchange rate have a significant impact on the corporation's reported volume. In fact, while the current forecast shows an increase in business volume of only 2%, the increase in volume from 2009 actual results to 2010 forecast is much higher at 10% when the effect of foreign exchange translation is removed.

The planned total business volume for 2011 is \$86.2 billion – an increase of \$1.8 billion over the 2010 forecast. Looking beyond 2011, total business volume is projected to grow by 4% per year over the remainder of the planning period.

Foreign Exchange Assumptions

One key change in approach from prior years pertains to the foreign exchange assumption. Rather than forecasting the foreign exchange rates, the Canada-U.S. exchange rate for the remainder of 2010 and for all subsequent years has been held constant at the 2010 year-to-date average exchange rate as of the time that this Corporate Plan was written. In prior corporate plans, EDC included a foreign exchange forecast for future years that was based on EDC Economics' Global Economic Forecast. This change in methodology has been implemented to remove the volatility in the results associated with exchange rate fluctuations. The rate used in this plan, as represented by the average rate for the period January 2010 through July 2010 is U.S. \$0.97.

As the majority of EDC's business transactions are denominated in U.S. dollars, fluctuations in the Canada-U.S. exchange rate have a direct impact on EDC's bottom line. There is also the indirect impact on EDC that occurs via the corporation's customers – Canadian exporters.

Since at least 70% of Canada's exports are priced in U.S. dollars, Canadian companies are highly exposed to fluctuations in the Canada-U.S. exchange rate. For a Canadian company that receives U.S. dollar revenues for its exports, as the Canadian dollar appreciates, revenues will fall (when converted back to CAD at the higher rate). So even if there is no change in the physical volume of shipments, the stronger Canadian dollar automatically translates into lower export receipts in Canadian dollar terms.

The result is a squeeze on profit margins. If exporters raise their U.S. dollar price to compensate for the falling revenues, their exports become more expensive and thus less competitive. Attempts can be made to offset this impact by lowering production costs through, for example, foreign-sourcing, restructuring or the use of CDIA, but these solutions only have an impact over the long term. In the short term, exporters face a difficult choice between lower profits or potentially lower sales because of price increases.

To provide an additional perspective on how movements in the Canada/U.S. exchange rate impact EDC and its results, a \$0.01 appreciation or depreciation in the value of the Canadian dollar in relation to its U.S. counterpart translates into an approximate \$8 million decrease or increase to the corporation's net financing and investment income, all other things being equal.

The Canadian dollar is often referred to as a "commodity currency"; its value moves when oil and other non-energy commodity prices move, but it also reflects swings in interest rate spreads and in the U.S. dollar against other currencies. This is reflected in the model EDC uses to forecast the value of the Canadian dollar. Based on this model, EDC Economics' Global Economic Forecast exchange rate for the 2011 plan year is \$0.95 which represents a depreciation of the Canadian dollar relative to the rate used in the development of this Corporate Plan.

Although historically this model has performed well in predicting the value of the Canadian dollar, recently there has been a distortion in the relationship between these variables, with the Canadian dollar being stronger than what would otherwise have been expected given other factors. Since the onset of the credit crisis, Canada has posted six consecutive quarters (2008Q4–2010Q1 inclusive) of trade deficits – offset by large surpluses in the financial account. Investor appetite for Canadian

financial instruments has been strong; this bullish position has been driven by Canada's healthy bank sector and favourable public debt metrics. Compounding this effect is the impact of the U.S. dollar role as the new "carry trade" currency. This means that because U.S. interest rates are the lowest in the world, investors are increasingly borrowing U.S. dollars for free, and investing in other countries – particularly commodity currencies such as the Canadian and Australian dollars.

Risk Profile on Business Volume

Managing risks effectively is one of the key elements of EDC's financial management strategy. The operating practices include ongoing monitoring of credit exposures – with specialized teams created to monitor and manage credit exposure within the different product lines.

RISK PROFILE OF FINANCING PORTFOLIO

The risk profile on financing volumes is one way the corporation can track its risk appetite. The risk profile is also one of the principal drivers of both the provision for credit losses and economic capital demand for credit risk.

The risk mix for new financing signings in 2010 is forecast to be 55% investment grade and 45% below investment grade. This represents a 5% greater shift towards investment grade signings than was contemplated in the 2010 Corporate Plan. This shift towards higher investment grade signings in 2010 is due in part to several large investment grade signings forecast to be signed in 2010 that are not expected to recur in 2011.

As governments impose tighter lending regulations on financial institutions, sub-investment grade companies will continue to face challenges in accessing credit. As such, EDC's financial capacity and higher risk tolerance will continue to be sought out. With this in mind, and in the absence of large non-recurring transactions that were signed in 2010, the risk mix is forecast to change to 45% investment grade and 55% below investment grade in 2011 and to remain constant throughout the rest of the planning period.

Interest Rates

Overall yields on new signings are expected to increase during the planning period when compared to the 2009 actual results due to forecast increases in LIBOR and US Treasury bond rates, which are expected to be partially offset by smaller decreases in credit spreads on an improved global outlook.

Administrative Expenses

As discussed in Chapters 1 and 2, the investments that EDC has made in strengthening its processes, attracting and retaining a talented workforce, growing its international footprint, and updating its technologies to keep pace with business needs and enable work to happen anywhere, has allowed the corporation to deliver a superior level of service to the customer and respond to the needs of Canadian global businesses as they evolve.

Underpinning these investments is EDC's ongoing commitment to prudent financial management. To that end, the corporation continues to manage its administrative expenses in an effective and efficient manner.

The planned administrative expenses for 2011 are \$300 million, a \$17 million increase over 2010 largely due to projected increases in rent and furniture, depreciation and human resources. In response to the cost containment measures announced in the 2010 Federal Budget Plan, EDC's increase in expenses for 2011 has been limited to existing commitments. Rent and furniture costs will be higher due to the move to the new head office building, commencing in mid-2011. Depreciation increases as a result of fit-up and IT infrastructure costs for the new head office as well as systems development initiatives capitalized in 2010. Human resources are higher primarily from the full year impact of salary increases administered in 2010.

3.2 FINANCIAL MANAGEMENT STRATEGY

General Principles

The key principles underlying the Financial Plan are EDC's commitment to operate in a financially self-sustaining manner by managing risk effectively and its commitment to sound financial management. Both of these areas are of increasing importance in today's highly uncertain economic environment. EDC's financial management strategy is focused on ensuring that the corporation has at all times sufficient financial capacity to support the ongoing fulfillment of its mandate and respond to the evolving needs of Canadian exporters and investors.

Key elements of this strategy are:

- › obtaining returns for risk taken;
- › maintaining operational efficiency through the management of costs; and
- › managing risks appropriately.

In addition, EDC manages its capital in order to be able to support new and existing business and to sustain the corporation. EDC manages its capital capacity through its Board-approved Capital Adequacy Policy (CAP). This policy measures the capital required to support the credit, market, operational and business risks of the corporation. Additional capital is made available beyond that which is required to support these core risks and is designated as Strategic Risk Capital. It is deployed to support EDC's strategy of broadening risk appetite in response to customer needs, as well as allowing for volatility in core risk capital demand.

SOUND FINANCIAL MANAGEMENT

Sound financial management at EDC comprises four aspects:

- › Measurement of its financial performance, which forms the cornerstone of sound financial management at EDC. The measures are consistent with measurements used in the financial services sector. The definitions and projected results of these measures are discussed in Chapter 2;
- › a capital adequacy policy, as discussed in Section 3.7;
- › Asset/Liability Management and Borrowing Strategies, as discussed in Section 3.9 and
- › a focus on financial sustainability and operational efficiency, through prudent management of administrative expenses, as discussed in Section 3.1.

3.3 PROJECTED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Table 1 summarizes EDC's Projected Consolidated Statement of Income through to the year 2015.

TABLE 1 | PROJECTED CONSOLIDATED STATEMENT OF INCOME (2009–2015)

(\$ in millions)	2009 ACTUAL	2010 PLAN	2010 FCST CICA	2010 FCST IFRS	2011 PLAN	2012 PROJ	2013 PROJ	2014 PROJ	2015 PROJ
Financing and investment revenue									
Loan	1,321	1,445	997	997	1,067	1,184	1,278	1,290	1,302
Finance lease	9	9	8	8	7	6	6	5	5
Operating lease	32	48	30	30	32	29	30	24	21
Debt relief	49	7	86	86	6	3	—	—	—
Investment	41	59	51	51	57	60	61	61	61
	1,452	1,568	1,172	1,172	1,169	1,282	1,375	1,380	1,389
Interest expense	380	362	163	163	168	276	370	388	407
Leasing & financing related expenses	68	58	56	53	60	58	54	55	52
Net Financing and Investment Income	1,004	1,148	953	956	941	948	951	937	930
Loan Guarantee Fees	24	23	28	28	19	17	15	15	16
Insurance Premiums and Guarantee Fees	197	225	213	213	229	235	240	251	265
Other Income (Expenses)	(74)	—	(15)	(31)	(12)	(7)	8	22	41
	1,151	1,396	1,179	1,166	1,177	1,193	1,214	1,225	1,252
Provision for (Reversal of) Credit Losses	431	550	(719)	(719)	130	65	84	72	137
Claims-Related Expenses	216	210	8	8	136	136	124	131	135
Administrative Expenses	246	283	283	277	300	311	311	312	312
Net Income	258	353	1,607	1,600	611	681	695	710	668

Note: The 2010 forecast is being shown on both a Canadian GAAP and IFRS basis, while 2011 and beyond is shown on an IFRS basis only. The earnings of the corporation and its subsidiary are not subject to the requirements of the *Income Tax Act*.

2010 Forecast (Canadian GAAP) versus 2010 Corporate Plan

The corporation is forecasting net income in 2010 of \$1,607 million which represents an increase of \$1,254 million from the \$353 million contemplated in the 2010 Corporate Plan. This is primarily the result of a \$1,269 million reduction in provisions for credit losses from the Corporate Plan projection. The key contributors to this provision variance are as follows:

- › **Lower Credit Migration:** During the planning period for the 2010 Corporate Plan significant downward credit migration, especially among airline obligors was expected, resulting in a projected additional \$361 million in provision requirements in 2010. However, the major airlines managed to raise significant amounts of cash in the bond market through the fall of 2009, which meant that the liquidity squeeze they were expected to experience in 2010 has not materialized. Upward credit migration is now forecast. This represents a decrease in provision for credit losses of \$455 million from the 2010 Corporate Plan.
- › **Lower Portfolio Growth:** In the 2010 Corporate Plan loan growth was expected to require an additional \$192 million in provisions in 2010. However, EDC is forecasting a reduction in loan growth and a reduction in signings compared to plan, largely due to a shift in the value of the Canadian dollar relative to the plan, resulting in an overall decrease in the provision for credit losses of \$387 million.
- › **Shortening of the Term to Maturity in the Loan Portfolio:** The new loans that are being signed are for shorter terms compared to the term of the loans that are repaying, which means that overall, the average term to maturity has shortened during 2010. A shorter term to maturity results in a lower probability of default, and therefore a lower allowance. This is difficult to predict in advance, and has led to a release of \$115 million in provisions.
- › **Revisions to Provisioning Methodology for Loan Commitments:** During 2010 EDC's provisioning methodology for loan commitments was reviewed and as a result refinements were made to the calculation of the allowance for loan commitments which led to a forecast provision release of \$327 million.

Additional items of note impacting the 2010 Forecast are as follows:

- › Claims related expenses are forecast to be \$8 million which is a \$202 million reduction from the 2010 Corporate Plan. The reduction is mostly due to changes in two key components of claims related expenses – the actuarial assumptions that drive the level of the insurance allowance and net claims paid. The actuarial assumptions were updated to reflect improvements in the retail and auto sectors due to an improved outlook on future claims when compared to last year's Corporate Plan.
- › Net financing and investment income for 2010 is forecast to be \$953 million, a \$195 million decrease from the 2010 Corporate Plan forecast of \$1,148 million. This reduction is due to a lower average loans receivable in 2010 as a result of actual 2009 net disbursements being lower than the amount forecast at the time the 2010 plan was developed, as well as an appreciation of the Canadian dollar from the rates contemplated in the 2010 Corporate Plan.

As noted earlier, for comparison purposes, the 2010 financial results are being shown on both a Canadian GAAP and IFRS basis. The impact on net income of changing to an IFRS basis is forecast to be a reduction of \$7 million. Further details on the transition to IFRS and the impacts of this transition are included in section 3.6.

Table 2 summarizes the IFRS impact on 2010 Net Income.

TABLE 2 | PROJECTED IFRS IMPACT ON 2010 NET INCOME

(\$ in millions)	
2010 Net Income per Canadian GAAP	1,607
IFRS Adjustments:	
Additional impairment loss on equipment available for lease under IFRS	(48)
Reclassification of gains on AFS investments from comprehensive income	32
Reduction in pension expense under IFRS	6
Depreciation adjustment on leased assets	3
	(7)
2010 Net Income per IFRS	1,600

Note that all IFRS impacts identified are based on current estimates and actual results at the date of transition may vary. In addition, the analysis for all years is based on current standards and does not take into account the impact of any changes in standards currently being contemplated for implementation in future periods.

2011 Corporate Plan versus 2010 Forecast (Canadian GAAP)

In 2011, it is planned that net income will be \$611 million representing a decrease of \$996 million from the 2010 forecast. The reduction is mainly a result of increased provisioning requirements in 2011.

The 2011 Corporate Plan provision for credit losses is \$130 million, an increase of \$849 million from the 2010 forecast provision reversal of \$719 million. The increase is largely due to a non-recurring provision release of \$327 million in 2010 as a result of changes in the provisioning methodology for commitments. Also increasing the provision expense is a \$269 million provision impact of a forecasted increase in portfolio growth as well as a \$150 million provision impact as a result of a higher level of anticipated negative credit migration in 2011.

Other key components impacting net income in 2011 are as follows:

- › Net financing and investment income for 2011 is planned to be \$941 million, or \$12 million lower than the 2010 forecast of \$953 million. The most significant factors impacting net financing and investment income in 2011 when compared to 2010 are:
 - › A planned decrease in debt relief for 2011 due to non-recurring debt relief received in 2010; and
 - › A planned increase in loan interest revenue mainly due to a higher planned loans receivable portfolio.
- › Claims related expenses are projected to be \$136 million in 2011, an increase of \$128 million from 2010. This is primarily due to a projected \$139 million increase in the insurance allowance in respect of the projected increase in insurance volume.
- › The planned net administrative expenses for 2011 are \$300 million, a \$17 million increase over forecast expenses for 2010, due to previously committed costs for projected increases in rent and furniture, depreciation and human resources.

Table 3 summarizes EDC's Projected Consolidated Statement of Comprehensive Income through to the year 2015.

TABLE 3 | PROJECTED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (2009–2015)

(\$ in millions)	2009 ACTUAL	2010 PLAN	2010 FCST CICA	2010 FCST IFRS	2011 PLAN	2012 PROJ	2013 PROJ	2014 PROJ	2015 PROJ
Net Income	258	353	1,607	1,600	611	681	695	710	668
Other Comprehensive Income (Loss)									
Net unrealized gains (losses) on available-for-sale marketable securities	(117)	–	37	–	–	–	–	–	–
Reclassification of gains on available-for-sale marketable securities to income	(1)	–	(5)	–	–	–	–	–	–
Other Comprehensive Income (Loss)	(118)	–	32	–	–	–	–	–	–
Comprehensive Income	140	353	1,639	1,600	611	681	695	710	668

Note: The 2010 forecast is being shown on both a Canadian GAAP and IFRS basis, while 2011 and beyond is shown on an IFRS basis only.

3.4 PROJECTED CONSOLIDATED BALANCE SHEET AND STATEMENT OF CHANGES IN EQUITY

Table 4 summarizes EDC's Projected Consolidated Balance Sheet through to the year 2015.

TABLE 4 | PROJECTED CONSOLIDATED BALANCE SHEET (2009–2015)

(\$ in millions)	2009 ACTUAL	2010 PLAN	2010 FCST CICA	2010 FCST IFRS	2011 PLAN	2012 PROJ	2013 PROJ	2014 PROJ	2015 PROJ
Assets									
Cash	52	86	102	102	102	102	102	102	102
Marketable securities – Available-for-sale	751	866	1,960	–	–	–	–	–	–
Marketable securities at fair value through profit or loss	4,629	3,209	1,307	3,237	3,267	3,267	3,267	3,267	3,267
Loans receivable	26,515	37,219	27,918	27,887	29,687	30,713	31,327	31,948	33,103
Allowance for losses on loans	(1,948)	(2,693)	(1,467)	(1,456)	(1,555)	(1,571)	(1,545)	(1,476)	(1,433)
Equity financing at fair value through profit or loss	196	431	298	301	399	480	560	625	664
Net investment in finance leases	113	114	103	103	93	83	72	60	60
Investment in joint ventures	–	–	–	47	58	58	58	58	58
Equipment available for lease	315	308	206	154	124	94	64	34	4
Recoverable insurance claims	93	44	86	86	76	65	65	65	65
Reinsurers' share of allowance for claims	159	145	148	148	159	165	171	178	185
Property, plant and equipment	17	45	38	38	88	75	64	56	51
Intangible assets	41	46	43	43	41	38	36	35	34
Derivative instruments ¹	1,909	2,078	1,867	1,867	1,888	1,888	1,888	1,888	1,888
Other assets	124	80	124	123	123	123	123	123	123
Total Assets	32,966	41,978	32,733	32,680	34,550	35,580	36,252	36,963	38,171
Liabilities and Equity									
Loans payable – designated at fair value through profit or loss	22,139	31,755	21,036	21,036	22,534	24,014	24,296	25,708	26,721
Loans payable – other financial liabilities	2,296	1,174	2,091	2,089	2,091	1,056	1,056	21	21
Accounts payable and other credits	147	120	108	199	298	280	276	270	267
Deferred insurance premiums	73	95	74	74	66	61	60	60	58
Derivative instruments ¹	222	461	242	242	242	242	242	242	242
Deferred loan guarantee revenue ²	68	70	62	62	58	54	50	48	46
Allowance for losses on loan commitments and guarantees	713	791	284	284	244	192	178	169	174
Allowance for claims on insurance	720	868	609	609	662	709	748	797	851
Total Liabilities	26,378	35,334	24,506	24,595	26,195	26,608	26,906	27,315	28,380
Share capital	1,333	1,333	1,333	1,333	1,333	1,333	1,333	1,333	1,333
Retained earnings	5,317	5,339	6,924	6,752	7,022	7,639	8,013	8,315	8,458
Accumulated other comprehensive income	(62)	(28)	(30)	–	–	–	–	–	–
Total Equity	6,588	6,644	8,227	8,085	8,355	8,972	9,346	9,648	9,791
Total Liabilities and Equity	32,966	41,978	32,733	32,680	34,550	35,580	36,252	36,963	38,171
Contingent Liability Statutory Limit									
Section 10(3), 10(4)									
Contingent Liability Limit	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000
Position against limit	25,953	22,137	28,780	28,780	27,888	29,685	32,059	34,365	36,364
Percent used	58%	49%	64%	64%	62%	66%	71%	76%	81%

The 2010 forecast is being shown on both a Canadian GAAP and IFRS basis, while 2011 and beyond is shown on an IFRS basis only.

1. Derivatives are not forecast, they are simply held constant, throughout the entire planning period, at YTD amounts at the time of preparing the plan. As such, there is no change in these items beyond 2010 except in 2011 which includes a reclassification of an unrealized loss on CDS/CDOs to a realized loss.

2. The 2009 actual results and the 2010 Corporate Plan Balance Sheet have been restated to conform with the presentation adopted for IFRS. Deferred loan guarantee revenue has been reclassified from deferred revenue (which is a contra-asset) to a liability.

2010 Forecast (Canadian GAAP) versus 2010 Corporate Plan

Forecast 2010 loans receivable are \$27.9 billion, a decrease of \$9.3 billion (25%) from the 2010 Corporate Plan. This decrease is mainly a result of two key items:

- › The actual 2009 loans receivable ending balance was \$6.5 billion lower than anticipated when preparing the 2010 Corporate Plan. The main factors contributing to this decline were a stronger Canadian dollar at the end of 2009 than used in the 2010 Corporate Plan and lower 2009 net disbursements than included in the 2010 Corporate Plan.
- › The foreign exchange rate at the end of 2009 was U.S. \$0.96 which represents a significant appreciation in the value of the Canadian dollar when compared to the U.S. \$0.84 rate used in the 2010 Corporate Plan. This difference in rates resulted in a \$3.4 billion reduction in loans receivable; and
- › Actual net disbursements in the last four months of 2009 were \$3.1 billion lower than the net disbursements included for this period in the 2010 Corporate Plan resulting in a reduction of the same amount in the loans receivable balance for 2009.
- › Net disbursements in the current forecast for 2010 are \$3.1 billion lower than projected in the 2010 Corporate Plan.

EDC's corporate borrowings, characterized as Loans Payable on the Balance Sheet, are forecast to be \$23.1 billion in 2010; \$9.8 billion (30%) lower than the 2010 Corporate Plan of \$32.9 billion. This is mainly due to the appreciation of the Canadian dollar and reduced cash requirements on lower net loan disbursements in 2010 as previously discussed.

2011 Corporate Plan versus 2010 Forecast (Canadian GAAP)

Planned 2011 loans receivable are \$29.7 billion, \$1.8 billion (6%) higher than the 2010 forecast of \$27.9 billion, resulting from net disbursements in 2011 of \$1.8 billion. This is a reduction of \$0.2 billion from forecasted net disbursements of \$2.0 billion in 2010, mainly as a result of lower financing volume in 2011.

Forecast 2011 loans payable are \$24.6 billion, \$1.5 billion (6%) higher than the 2010 forecast of \$23.1 billion. This is mainly due to cash requirements to fund the net loan disbursements in 2011.

Table 5 summarizes EDC's Projected Consolidated Statement of Changes in Equity through to the year 2015.

TABLE 5 | PROJECTED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (2009–2015)

(\$ in millions)	2009 ACTUAL	2010 PLAN	2010 FCST CICA	2010 FCST IFRS	2011 PLAN	2012 PROJ	2013 PROJ	2014 PROJ	2015 PROJ
Share Capital	1,333	1,333	1,333	1,333	1,333	1,333	1,333	1,333	1,333
Retained Earnings									
Balance beginning of year	5,077	5,129	5,317	5,317	6,752	7,022	7,639	8,013	8,315
Opening adjustment on transition to IFRS	–	–	–	(165)	–	–	–	–	–
Transitional adjustment on application of EIC-173	(18)	–	–	–	–	–	–	–	–
Net income	258	353	1,607	1,600	611	681	695	710	668
Dividend paid	–	(143)	–	–	(341)	(64)	(321)	(408)	(525)
Balance end of year	5,317	5,339	6,924	6,752	7,022	7,639	8,013	8,315	8,458
Accumulated Other Comprehensive Income (Loss)									
Balance beginning of year	56	(28)	(62)	(62)	–	–	–	–	–
Opening adjustment on transition to IFRS	–	–	–	62	–	–	–	–	–
Other comprehensive income (loss)	(118)	–	32	–	–	–	–	–	–
Balance end of year	(62)	(28)	(30)	–	–	–	–	–	–
Retained earnings and accumulated other comprehensive income (loss)	5,255	5,311	6,894	6,752	7,022	7,639	8,013	8,315	8,458
Total Equity at End of Year	6,588	6,644	8,227	8,085	8,355	8,972	9,346	9,648	9,791

3.5 PROJECTED CONSOLIDATED CASH FLOW STATEMENT

Table 6 summarizes EDC's Projected Consolidated Cash Flow Statement through to the year 2015.

TABLE 6 | PROJECTED CONSOLIDATED CASH FLOW STATEMENT (2009–2015)

(\$ in millions)	2009 ACTUAL	2010 PLAN	2010 FCST CICA	2010 FCST IFRS	2011 PLAN	2012 PROJ	2013 PROJ	2014 PROJ	2015 PROJ
Cash Flows from (used in) Operating Activities									
Net Income	258	353	1,607	1,600	611	681	695	710	668
Provision for credit losses	431	550	(719)	(719)	130	65	84	72	137
Actuarial increase in the allowance for claims	34	39	(111)	(111)	53	47	39	49	54
Depreciation and amortization	51	58	58	58	35	32	19	19	19
Change in derivative instruments receivable	(392)	—	(250)	(250)	—	—	—	—	—
Change in derivative instruments payable	520	—	281	281	—	—	—	—	—
Changes in operating assets and liabilities and other	(484)	(115)	(193)	(186)	302	224	237	81	12
Net Cash from Operating Activities	418	885	673	673	1,131	1,049	1,074	931	890
Cash Flows from (used in) Investing Activities									
Loan disbursements	(10,555)	(18,074)	(10,449)	(10,449)	(11,458)	(11,822)	(12,329)	(12,665)	(13,014)
Loan repayments	10,472	12,893	8,397	8,392	9,645	10,724	11,605	11,894	11,679
Equity financing disbursements	(74)	(170)	(119)	(119)	(131)	(135)	(128)	(112)	(105)
Equity financing receipts	12	7	24	24	48	79	88	101	139
Net cash from investment in joint ventures	—	—	—	5	28	—	—	—	—
Net (purchase)/sales of held-for-trading marketable securities	(1,689)	(267)	3,322	2,113	(30)	—	—	—	—
Net (purchase)/sales of available-for-sale marketable securities	(381)	26	(1,209)	—	—	—	—	—	—
Net Cash used in Investing Activities	(2,215)	(5,585)	(34)	(34)	(1,898)	(1,154)	(764)	(782)	(1,301)
Cash Flows from (used in) Financing Activities									
Issue of long term loans payable	8,195	8,058	4,032	4,032	7,403	4,784	3,879	9,520	7,405
Repayment of long term loans payable	(3,216)	(5,710)	(5,899)	(5,899)	(6,418)	(4,430)	(3,578)	(8,919)	(6,843)
Change in short-term loans payable	(3,376)	2,495	1,125	1,125	123	(185)	(290)	(342)	374
Change in derivative instruments receivable	(19)	—	259	259	—	—	—	—	—
Change in derivative instruments payable	(257)	—	(106)	(106)	—	—	—	—	—
Issue of share capital	350	—	—	—	—	—	—	—	—
Dividends	—	(143)	—	—	(341)	(64)	(321)	(408)	(525)
Net Cash from (used in) Financing Activities	1,677	4,700	(589)	(589)	767	105	(310)	(149)	411
Effect of exchange rate changes on cash and marketable securities	(16)	—	—	—	—	—	—	—	—
Net increase (decrease) in cash	(136)	—	50	50	—	—	—	—	—
Cash									
Beginning of Year	188	86	52	52	102	102	102	102	102
End of Year	52	86	102	102	102	102	102	102	102
Net increase (decrease) in cash	(136)	—	50	50	—	—	—	—	—

3.6 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). Effective January 1, 2011, the Canadian Institute of Chartered Accountants will adopt IFRS as Canadian GAAP for publicly accountable enterprises. The policies, which are expected to be similar in approach to those of other financial institutions, reflect the long-term nature of EDC's business and are prudent in light of the risks associated with its unique portfolio.

Future Accounting Changes – IFRS

As indicated in the preceding paragraph, EDC will be transitioning to IFRS on January 1, 2011. EDC is currently on track with its IFRS conversion plan and will meet the implementation deadline.

An in-depth assessment of each of the currently issued accounting standards relevant to EDC has been completed. Each assessment included an analysis of the impact of the accounting policy changes and new disclosures on internal systems, processes and procedures. The required modifications are substantially complete. EDC has prepared an initial set of pro-forma IFRS compliant financial statements and related notes and is capturing the data to ensure that 2010 comparative figures are available for the 2011 financial statements.

Based on the standards effective for the conversion, the required changes to accounting policies will not have a significant impact on the financial results. There will be changes to the financial statement presentation and expanded financial statement note disclosure.

Below are the more significant accounting policy changes that have been made based on the standards that are currently in effect.

IAS 16 – PROPERTY, PLANT AND EQUIPMENT

This standard impacts how EDC accounts for equipment available for lease, which consists solely of aircraft returned to EDC by impaired obligors. Under this standard there are two options to account for equipment – use of the cost model or a revaluation model where the asset is recorded at its fair value on each reporting date. EDC has chosen to account for the aircraft using the cost model and also elected under IFRS 1 – *First-time Adoption of International Financial Reporting Standards* to measure aircraft at their fair value upon implementation of IFRS and use those fair values as deemed cost. The difference between these values and the carrying values under Canadian GAAP will be included in the opening adjustment to retained earnings.

In addition, IAS 16 also requires that each component of an asset with a cost that is significant in relation to the total cost of the item be depreciated separately. Engines and major maintenance checks will be accounted separately from the remaining portions of the aircraft.

IAS 36 – IMPAIRMENT OF ASSETS

This standard is of particular importance with respect to equipment available for lease. There are differences from Canadian GAAP in the definitions of impairment and recoverability, and differences in the methods used to calculate future cash flows. The impact of these changes will depend upon the size and composition of EDC's portfolio of equipment available for lease, lease rates, and aircraft residual values at each reporting date.

IAS 19 – EMPLOYEE BENEFITS

The major impact of this standard will be on post-retirement benefits. EDC has chosen, under IFRS 1, to recognize the cumulative net actuarial losses into opening equity upon transition. In addition, actuarial gains and losses will continue to be recognized on post retirement pension and benefit plans using the corridor method. Based on an exposure draft issued in the spring of 2010, it is likely that the Corridor Method will no longer be allowed under IFRS beginning in 2013.

IAS 39 AND IFRS 9 – FINANCIAL INSTRUMENTS

Early in 2009, the International Accounting Standards Board (IASB) announced that they were accelerating the replacement of IAS 39. In November 2009, they issued IFRS 9 – *Financial Instruments*, which addressed the first phase of this project, the classification and measurement of financial assets. The effective date of IFRS 9 has not been firmly established, however, EDC has elected to early adopt the standard as issued in November 2009 as part of the first-time adoption of IFRS on January 1, 2011. IASB currently expects to complete all phases of their project and issue the completed standard in 2011.

Under this new standard financial assets are measured either at fair value or amortized cost based on the entity's business model for managing the financial assets and the nature of the instruments' cash flows. There is little impact on either the loans receivable portfolio or the equity financing portfolio.

As a result of implementing IFRS, the most significant change in accounting for financial instruments will be on the marketable securities portfolios, in particular the available-for-sale (AFS) investments. AFS investments will be classified at fair value through profit or loss with unrealized fair value and foreign exchange gains and losses on these instruments recorded in net income. Under Canadian GAAP, these gains and losses are recorded in other comprehensive income.

As required by IAS 39, EDC will change the accounting treatment for the transaction costs on financial liabilities carried at amortized cost. Under Canadian GAAP these are currently expensed while under IFRS they will be capitalized and amortized over the life of the instrument.

The balance sheet consists primarily of financial instruments, consequently the final version of IFRS 9 could potentially have a significant impact on the way financial instruments are accounted for and, as well, on the financial results.

IAS 31 – INTEREST IN JOINT VENTURES

IAS 31 currently offers a choice for consolidating interests in joint ventures – either the proportionate consolidation or equity methods. A new standard expected to be finalized in late 2010, however, only allows the equity method. In anticipation of the new standard, the Exinvest subsidiary will change from the proportionate consolidation method to the equity method for its two joint ventures which will result in the cumulative investment in these entities being recorded within “Interest in joint ventures” on EDC’s balance sheet.

Initial IFRS financial statements must reflect the financial position as if IFRS had always been applied, with any differences upon implementation eliminated through opening equity. The opening equity adjustment is currently being finalized. The expected impact is provided in the following table.

Table 7 summarizes the IFRS Opening Equity Adjustments.

TABLE 7 | PROJECTED IFRS OPENING EQUITY ADJUSTMENTS

(\$ in millions)	
Equipment available for lease (IAS 16)	(11)
Aircraft maintenance costs (IAS 16)	4
Defined benefit pension plans (IAS 19)	(97)
Accumulated other comprehensive income (IAS 39 & IFRS 9)	(62)
Financial liabilities (IAS 39 and IFRS 9)	2
Investment in joint ventures (IAS 31)	(1)
Total decrease in equity	(165)

BUSINESS IMPACTS

In addition to completing the analysis of the impact of IFRS on external financial reporting as discussed above, a business impacts analysis was also performed, identifying the potential impacts to the people and processes involved to transact and monitor the business. Activities are underway to ensure adequate training of those impacted and to modify processes and systems to ensure readiness for 2011.

EVOLVING STANDARDS

The IASB has a number of projects underway, some of which will impact the standards relevant to EDC. In addition to the projects on employee benefits and financial instruments discussed previously, EDC is closely monitoring the progress of projects on insurance contracts and leases. Revisions made to these standards could potentially have a significant impact on EDC’s financial statements in future periods.

3.7 ECONOMIC CAPITAL

Capital Adequacy Policy (CAP) and Dividends

As mentioned in Section 3.2, the CAP is a fundamental component in EDC's overall capital management framework. The goal of the Policy is to support EDC's Business Strategy by ensuring that EDC has adequate capital to support its current and future business.

At its foundation, the CAP has a guiding philosophy and set of principles that balance the requirement for EDC to fulfill its public policy mandate while remaining financially self-sufficient. The CAP also contemplates the need for EDC to maintain sufficient capital to protect the corporation from risk uncertainties.

Capital determines the capacity of EDC to fulfill its public policy mandate and sustain the corporation into the future. A key principle is the establishment of a target solvency standard for EDC that determines the level of capital that is required to cover its exposures even in exceptional circumstances. The established standard of a solvency level consistent with a AA credit rating aligns with market practice of leading financial institutions and with the key principles of financial self-sufficiency.

Both EDC's demand for capital and its supply of capital are calculated using methodologies that are generally consistent with the Basel II framework. EDC defines capital supply as the sum of total shareholder's equity and allowances, as determined in accordance with Canadian GAAP. Under the capital management framework, EDC determines whether it has adequate capital by comparing its supply of capital to its demand for capital. Demand for capital arising from credit, market, operational and business risk is quantified using rigorous models and practices. In addition, a further portion of available capital is also allocated for strategic risks and market volatility.

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

EDC's capital is first and foremost available to support Canadian exporters and investors for the benefit of Canada and it is EDC's intention to fully utilize its capital in support of its mandate. The CAP does, however, recognize that there may be situations in which its Board of Directors may authorize a dividend payment from surplus capital. Therefore, the CAP includes a potential eligible dividend methodology to guide the Board of Directors in determining the dividend amount.

The amount of the eligible dividend is determined by a methodology that is based on the net income and the capital base of the corporation and includes a forward looking test. The dividend eligibility calculation is performed in the first quarter of the following year once the year end results are finalized. Management provides the Board of Directors with the results of the dividend eligibility calculation, together with a recommendation as to the amount of the dividend to pay, if any. The Board makes the final determination of whether EDC will pay a dividend. Provided the Minister supports the approved dividend, it will normally be paid prior to March 31 of the following year.

In 2010, EDC did not pay a dividend. The 2011 forecast eligible dividend relating to the 2010 fiscal year is \$341 million. Since 2002, EDC has paid a total of \$695 million in dividends to the Government of Canada.

Over the last two years EDC has developed its stress testing capabilities. This has permitted the corporation to better ascertain its ability to sustain potential financial shocks in the future. As a result, EDC will embark on a review of the dividend methodology in 2011 with an objective of an implementation of a revised approach for year-end 2011.

3.8 CAPITAL EXPENDITURES

Table 8 summarizes EDC's Projected Capital Expenditures through to the year 2015.

TABLE 8 | PROJECTED CAPITAL EXPENDITURES (2009–2015)

(\$ in millions)	2009 ACTUAL	2010 PLAN	2010 FCST	2011 PLAN	2012 PROJ	2013 PROJ	2014 PROJ	2015 PROJ
Future Head Office	1.6	24.5	18.5	51.4	–	–	–	–
Facilities	1.6	2.8	2.5	1.9	1.8	2.8	1.3	1.1
Information Technology	20.9	21.9	21.9	21.9	17.1	17.4	20.1	17.9
Total Capital Expenditures	24.1	49.2	42.9	75.2	18.9	20.2	21.4	19.0

Capital expenditures are forecast to be \$42.9 million in 2010, \$6.3 million under the 2010 Corporate Plan primarily due to certain planned 2010 costs for the future head office being deferred to 2011. In 2011, these expenditures increase \$32.3 million to \$75.2 million. This increase is predominantly attributed to costs associated with EDC's future head office.

Future Head Office and Facilities

EDC will be moving to a new head office at the end of 2011, consolidating all Ottawa staff into one building and providing an environment that is more open, flexible, collaborative and environmentally friendly. The decision to move into a new building was based on a 2008 business case and Request for Proposal process. The financial evaluation resulting from that process indicated it was more economical for EDC to move, rather than stay in its current aging buildings and have necessary improvements made to them. Future head office expenditures, focused primarily in 2011, include EDC's costs for consulting services, for construction of the interior space, for provision of the necessary technology infrastructure, furniture costs, the cost of the move to the new premises, and the removal of tenant improvements from existing buildings.

Information Technology

Information technology expenditures for 2010 are forecast to be on plan. In order to keep IT capital expenditures flat for 2011, EDC will focus primarily on three key technology initiatives:

- › Business Architecture Redesign;
- › Web Enablement project; and
- › Technology requirements for the new building.

The Business Architecture Redesign is well under way and is intended to support lean business processes, simplify business applications and leverage information across the customer value chain. Over the Corporate Plan period, EDC's legacy applications will be substantially re-factored into end-to-end business workflows and common "services" such as a centralized obligor database and a centralized cash management platform. In addition to facilitating continuous improvements in business processes, this Business Architecture Redesign is expected to result in a decrease of EDC's legacy system costs. At the same time, efforts to address company data standardization and governance will reduce data cleanup and reconciliation. Lastly, based on a corporate information classification system that is currently being established, implementation of electronic document and records management disciplines with supporting technology will facilitate information sharing and streamline records/information compliance activities. The key focus of the Business Architecture Redesign in 2011 will be on the replacement of the Credit Risk Rating Engine and the centralization of external obligor data feeds.

Subsequent to the delivery of a new web foundation in 2010, EDC's internal employee portal and its external portal (edc.ca) will be redesigned and launched in 2011.

Implementation of IT requirements for EDC's new head office (power/cooling, data storage, networks, server virtualization, video-conferencing facilities for meeting and training rooms, etc.) – along with the migration of existing IT services such as the print shop and service desk – will be intensive up to the end of 2011. Technology required for the new head office building will support greater collaboration, improved knowledge sharing and more flexible work arrangements. In addition, where appropriate, EDC is seeking to modernize its infrastructure with more efficient, "greener" technology. The investments made in 2011 will lead to a reduced requirement for capital expenditures in 2012 and 2013.

There is a well-developed governance structure in place which includes a focus on transforming IT to meet present and future demands of EDC and its customers in the most effective way. The approval of specific technology projects is provided by the Board of Directors, EDC executive or management, depending on the project cost. EDC has an IT Strategic Plan which clearly outlines the responsibilities of EDC management and management committees in the planning, authorization and monitoring of the portfolio of technology expenditures. This management oversight, combined with an IT Governance group, ensures appropriate oversight of all EDC technology expenditures.

3.9 ASSET/LIABILITY MANAGEMENT AND BORROWING STRATEGIES

In accordance with the *Export Development Act* (ED Act) and the *Financial Administration Act* (FAA), EDC raises its funding requirements in international and domestic capital markets through borrowings by any appropriate means, including issuing bonds, commercial paper or other debt instruments. EDC's objective is to borrow at an attractive cost of funds relative to the market while prudently managing interest rate, foreign exchange and credit risks arising from its Treasury operations.

Asset/Liability and Market Risk Management

EDC manages its exposures to interest rate, foreign exchange and credit risks arising from its Treasury operations utilizing a policy framework, including risk and liquidity limits, which is consistent with industry practices and approved by the corporation's Board of Directors. The policy framework is compliant with the Minister of Finance Financial Risk Management Guidelines for Federal Entities (FRMG).

Market risk is the potential for loss as a result of movements in interest and foreign exchange rates. EDC is exposed to movements in interest rates and the impact they have on the corporation's book of assets, as well as its liability positions. EDC is exposed to foreign exchange risk as it reports its financial results and maintains its capital position in Canadian dollars whereas its asset book and much of its liabilities are in U.S. dollars or other currencies.

Through its policies and procedures, EDC ensures that market risks are identified, measured, managed and regularly reported to management and the Board of Directors. EDC's Market Risk Management Policy sets out interest rate and foreign exchange risk limits, and exposure to market risk arising from any mismatch between assets and liabilities is managed within these limits. EDC believes that prudent funding and risk management at the portfolio level, rather than the matching of individual assets with specific liabilities, provide management with the flexibility to achieve attractive funding costs while managing market risks within EDC's policy requirements. EDC manages its exposure through its funding strategy and using derivatives to hedge exposures.

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 Market Risk Management Policy establishes minimum counterparty credit rating requirements and maximum exposure limits for the management of credit risk. In addition to limits, EDC utilizes other credit mitigation techniques to assist in credit exposure management. Currently, EDC has a collateral program in which twelve of Treasury's swap counterparties participate; EDC's counterparties pledge AAA securities (held by EDC's collateral agent) which typically offset a major portion of EDC's credit exposure.

EDC continually monitors its exposure to movements in interest rates and foreign exchange rates as well as its 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. EDC's Asset Liability Committee meets, at least quarterly, to review current and future compliance with the corporation's Market Risk Management policies. EDC's market risk positions are reported quarterly to the Risk Management Committee of the Board of Directors.

Borrowing Strategies

STATUTORY BORROWING AUTHORITIES

The ED Act permits the corporation to borrow and have outstanding loans payable up to a maximum of 15 times the aggregate of its current paid in capital and retained earnings which is determined in accordance with the Corporation's audited financial statements for the previous year. Based on the 2011 forecast, the maximum limit for 2011 is estimated at \$121.3 billion, compared to forecasted loans payable at year end of \$24.6 billion.

In determining the amount of capital markets borrowing authority which is sought from the Minister of Finance, a margin of prudence is added to facilitate intra-year management of the debt program. For the money market borrowing authority, a buffer is required to ensure that EDC can respond to any rapid escalation in the drawdown of revolving loan facilities (approximately U.S. \$4 billion undrawn), meet its current obligations and maintain sufficient money market borrowing capacity given this is considered a source of liquidity.

On an annual basis, EDC obtains approval from the Minister of Finance for the amounts it plans to borrow in the capital and money markets. The related Board resolutions must be supportive of the amounts that have been approved.

As a back-stop to the borrowing strategy, EDC maintains a liquidity portfolio that allows the corporation to bridge unfavorable market conditions and respond to rapid changes in demand for asset funding. Under the Corporation's revised Liquidity Policy, the Standby Credit Facility has been terminated. In its place, EDC and the Department of Finance have formalized the process in which EDC could access the Consolidated Revenue Fund if required.

BORROWING APPROACH

The primary objective of EDC's funding programs is to ensure that commitments are met. This is done within the parameters of the Corporation's Liquidity Policy and Risk Management Guidelines.

EDC issues commercial paper (CP) to meet EDC's operating requirements and it issues capital markets debt to manage the size of the CP programs. This philosophy may change during periods of market stress.

EDC can customize debt products to meet investors' preferences. Investor sentiment is balanced by EDC's internal asset/liability management and cash requirements. The timing, currency and maturity of issuances are influenced by market demand. EDC offers a wide range of debt products with various characteristics.

Derivatives are used as part of the asset/liability management process and to reduce fixed or floating rate funding levels. EDC's internal policies do not allow for the issuance of any financial instrument, derivative, or structured note whose value and hence financial risk cannot be calculated, monitored and managed internally on a timely basis.

The execution of the borrowing and liquidity strategies is monitored on a daily basis and monthly reports are provided to senior management and quarterly reports are provided to the Audit Committee of the Board.

A critical part of our borrowing approach is high execution standards. Broad support from underwriters ensures solid primary placement within a diversified investor base. EDC seeks to price its respective issues fairly in the primary market and closely monitors secondary market performance in an effort to ensure debt service costs are minimized.

Sources of Financing

MONEY MARKETS BORROWING PROGRAM

The money markets borrowing program, with a current authorized limit of U.S. \$8 billion, consists of various global CP programs designed to ensure that sufficient funds are available to meet EDC's daily financial commitments. Daily cash demands are managed proactively to reduce the cost of funds and rollover risk. It is typical for the size of the CP programs to increase as they fund EDC's daily activity and to decrease as the proceeds from a capital markets borrowing are absorbed.

The amount of CP outstanding is typically managed within a range. A minimum threshold is set due to the need to maintain a market presence while the upper end of the range is governed by best practice benchmarks. The Corporation's current operating range is U.S. \$1.5 to U.S. \$5.5 billion.

Under the corporation's Liquidity Policy, unused CP capacity is recognized as a source of liquidity. An operational liquidity buffer is maintained to safeguard the corporation against cash flow interruptions in the capital markets and unexpected cash flow demands. During periods of market stress, financial institutions often tighten their lending practices, forcing companies to seek liquidity elsewhere including their EDC revolver or other EDC financing commitments. Unexpected cash flow demands most often result from EDC's undrawn revolver commitments which are estimated at U.S. \$4 billion and have a typical notification period of two days.

While the amount of CP outstanding can reach the upper range of U.S. \$5.5 billion and still be in compliance with the Liquidity Policy, an operational safeguard of U.S. \$2.5 billion could be an insufficient buffer given the potential impact of revolvers. EDC is seeking approval from the Minister of Finance to maintain its short-term borrowing program limit at U.S. \$8 billion with the potential to increase it to U.S. \$10 billion should circumstances warrant. The opportunity to increase the limit recognizes the CP capacity as a source of liquidity which is available to protect EDC against long-term funding disruptions and unanticipated funding requirements.

CAPITAL MARKETS BORROWING PROGRAM

The capital markets borrowing program diversifies its funding sources by offering debt securities to investors around the world, both through global offerings and by way of borrowings designed to meet the needs of specific markets or types of investors. Typical long-term instruments include, but are not limited to: benchmark global bonds, plain vanilla bonds, structured and medium-term notes.

In order to smooth its maturity profile, EDC will issue structured and medium-term notes. Structured notes can be issued in a variety of maturities including some which are longer-dated (investor preference frequently extends out to 30 year maturities) with callable features. The mix of funding will be guided by numerous factors including, relative cost, market conditions and the profile of the loans assets portfolio.

Funding raised in any given year is used for EDC's general operations, including loan disbursements, refinancing of maturing debt and prefunding for future lending activities. The corporation determines its funding requirements from a baseline amount as established in the Corporate Plan adding a buffer for increased needs due to stressed market conditions.

The Corporate Plan projects a baseline borrowing requirement of U.S. \$7.2 billion with 85% of the total driven by capital markets refinancing requirements. Borrowing requirements resulting from net loan disbursements are expected to decrease as EDC's domestic mandate winds down and the continued global recession limits economic growth. EDC is requesting from the Minister of Finance a capital markets borrowing limit of U.S. \$9 billion based on the Corporate Plan calculations plus a margin for prudence reflecting potential increases to long-term financing requirements due to tighter lending conditions.

Drivers of Capital Markets Borrowing Requirements

REFINANCING NEEDS

In 2011, capital markets refinancing needs are projected to be approximately U.S. \$6.1 billion. These are contractual maturities which must be refinanced. In addition to this, Treasury assumes that a certain portion (U.S. \$82 million) of EDC's structured debt will be called and will need to be refinanced.

NET LOAN DISBURSEMENTS

The level of net loan disbursements is a key driver of EDC's borrowing requirements. EDC expects that borrowing requirements for net loan disbursements will be lower than in 2010 as financing under EDC's expanded mandate winds down in Q1 2011. EDC is also projecting lower non-domestic business volumes as economies throughout the world continue to struggle.

DEBT BUYBACK

Treasury considers opportunities to buy back its debt in order to smooth its maturity profile or to take advantage of refinancing opportunities at lower costs.

POTENTIAL INCREASES TO CASH REQUIREMENTS

The actual amount borrowed for the year may differ from the Corporate Plan due to the uncertainty with respect to economic conditions and the timing of cash transactions. Any changes to the planned debt program will be communicated to market participants on an as needed basis.

INCREASED LENDING ACTIVITY (NEW BUSINESS)

EDC's volumes are dependent upon the import spending done by other countries. If a global recovery outpaces EDC's forecasts and/or world liquidity further tightens, capital markets funding requirements could increase. As part of the Corporate Plan process, a sensitivity analysis was prepared. Based on the analysis, an additional U.S. \$1 billion of financing volumes could increase borrowing requirements by approximately U.S. \$500 million.

REDUCE CP OUTSTANDING

As market conditions change and investor demand permits, additional capital markets funding may be accessed. If the amount of capital markets funding exceeds that which is planned, EDC may reduce the amount of CP outstanding to a level that is closer to the lower end of its targeted range.

PRE-FUNDING OF 2012 VOLUME

During the crisis in 2008, financial institutions backed by three-year government guarantees, sovereigns and supra-nationals issued a large volume of debt which will require refinancing in 2012. This increased activity level in the capital markets could result in more expensive funding levels in 2012. As a result, EDC may seek to pre-fund some of its 2012 capital markets financing requirements in an effort to minimize debt service costs.

Table 9 summarizes EDC's Capital Markets Borrowing Requirement Projection for 2011.

TABLE 9 | CAPITAL MARKETS BORROWING REQUIREMENT PROJECTION FOR 2011

(U.S. \$ in millions)		
Decrease/(Increase) in Cash from Operations	(1,087)	
Net Loan Disbursements	1,833	
Eligible Dividend ¹	331	
Activity from Operations		1,077
Decrease/(Increase) in Short Term Loans Payables	(108)	
Refinancing of Debt Maturities	5,755	
Buybacks	362	
Callable Debt	82	
Activity from Liabilities		6,091
Forecast Borrowing Requirements for Corporate Plan²		7,168
Potential Increases to Cash Requirements		
Changes to assumption on Callable Debt	85	
Changes to assumption on Lending Activity	500	
Changes to assumption on Revolving Facilities	750	
Reduction of Outstanding Commercial Paper	500	
Pre-funding of 2012 Volume	500	
Potential Additional Borrowing Requirements		9,503

1. The eligible dividend of \$341 million CAD is converted to USD (FX rate \$0.97).

2. Table 10 – Projected Consolidated Cash Flow Statement – Issue of long term loans payable in Canadian dollars (FX rate \$0.97) is \$7,403.

From time to time, 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 as approved by the Minister of Finance, following the approval of the Corporate Plan. In such instances, EDC will continue to seek the approval of the Minister of Finance and report on any changes in the subsequent Corporate Plan.

Under extraordinary circumstances where the corporation could not access funds to meet its obligations, the corporation could request a loan from the Minister of Finance to enable it to continue to meet its payment obligations going forward.

Table 10 summarizes EDC's Projected Borrowing Plans through to the year 2015.**TABLE 10 | PROJECTED BORROWING PLANS (2009–2015)**

(\$ in millions)	2009 ACTUAL	2010 PLAN	2010 FCST	2011 PLAN	2012 PROJ	2013 PROJ	2014 PROJ	2015 PROJ
Loans Payable Limit	96,150	96,930	99,750	121,275	125,325	134,580	140,190	144,720
Position against limit	24,435	32,929	23,127	24,625	25,070	25,352	25,729	26,742
Percent used	25%	34%	23%	20%	20%	19%	18%	18%
Capital Markets Borrowing Limit (U.S. \$9.0 billion)¹	9,922	10,461	9,317	—	—	—	—	—
Position against limit	6,628	8,058	4,032	7,403	4,784	3,879	9,520	7,405
Percent used	67%	77%	43%	—	—	—	—	—
Short Term Borrowing Limit (U.S. \$8.0 billion)¹	8,373	9,208	8,282	—	—	—	—	—
Position against limit	2,569	6,906	3,106	3,106	3,106	3,106	3,106	3,106
Percent used	31%	75%	38%	—	—	—	—	—

1. The limits are set each year in consultation with the Department of Finance, and accordingly, there are no limits set for 2011 to 2015.

3.10 OPERATION OF SUBSIDIARY

EDC incorporated Exinvest Inc. in 1995. It acquired shares of Exinvest Inc. in accordance with the applicable provisions of the FAA and the ED 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 2010 and over the planning period, no new financing vehicles and no potential business transactions are anticipated. The financial projections for Exinvest Inc. are therefore based upon the servicing of its existing business commitments. 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 11 summarizes the Exinvest Inc. Projected Consolidated Statement of Income through to the year 2015.

TABLE 11 | EXINVEST INC. PROJECTED CONSOLIDATED STATEMENT OF INCOME (2009–2015)

(\$ in millions)	2009 ACTUAL	2010 PLAN	2010 FCST CICA	2010 FCST IFRS	2011 PLAN	2012 PROJ	2013 PROJ	2014 PROJ	2015 PROJ
Revenue									
Interest	4	3	2	–	–	–	–	–	–
Income from investment in joint ventures	–	–	–	24	11	–	–	–	–
	4	3	2	24	11	–	–	–	–
Expenses									
Provision for (reversal of) credit losses	10	(10)	(22)	–	–	–	–	–	–
Administrative & other	8	1	–	–	–	–	–	–	–
	18	(9)	(22)	–	–	–	–	–	–
Net Income	(14)	12	24	24	11	–	–	–	–
Retained earnings at beginning of year	12	5	(2)	(2)	22	33	33	33	33
Retained earnings at end of year	(2)	17	22	22	33	33	33	33	33

Table 12 summarizes the Exinvest Inc. Projected Consolidated Balance Sheet through to the year 2015.

TABLE 12 | EXINVEST INC. PROJECTED CONSOLIDATED BALANCE SHEET (2009–2015)

(\$ in millions)	2009 ACTUAL	2010 PLAN	2010 FCST CICA	2010 FCST IFRS	2011 PLAN	2012 PROJ	2013 PROJ	2014 PROJ	2015 PROJ
Assets									
Loans receivable	36	35	31	–	–	–	–	–	–
Allowance for losses on loans	(14)	(13)	(11)	–	–	–	–	–	–
Net loans receivable	22	22	20	–	–	–	–	–	–
Interest in joint ventures	–	–	–	47	58	58	58	58	58
Cash & marketable securities	45	60	52	21	21	21	21	21	21
Total Assets	67	82	72	68	79	79	79	79	79
Liabilities and Equity									
Allowance for call of indemnity	19	13	–	–	–	–	–	–	–
Other liabilities	4	6	4	–	–	–	–	–	–
	23	19	4	–	–	–	–	–	–
Share Capital	46	46	46	46	46	46	46	46	46
Retained earnings	(2)	17	22	22	33	33	33	33	33
	44	63	68	68	79	79	79	79	79
Total Liabilities and Equity	67	82	72	68	79	79	79	79	79

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 on EDC. More specifically, this guide includes information relating to EDC's:

- › **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.
- › **Products and Services**, the solutions which are structured to facilitate the needs of Canadian exporters in an ever changing global trade environment.

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 was temporarily expanded for a two-year period through the 2009 *Budget Implementation Act*. Subsection 10(1) of the *Export Development Act* was amended to read:

"The Corporation is established for the purposes of supporting and developing, directly or indirectly,

- (a) domestic trade and Canadian capacity to engage in that trade and to respond to domestic business opportunities; and
- (b) Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities."

EDC's expanded mandate is set to expire in March 2011.

Operating Principles

EDC conducts its business in a manner that is: respectful of applicable international agreements to which Canada is a party; consistent with its Corporate Social Responsibility (CSR) commitments; and ensures the sound financial management of its activities.

Statement of Priorities and Accountabilities (SPA)

As a Crown corporation, EDC's business strategy must align with and reflect the priorities outlined by the Minister of International Trade in the Statement of Priorities and Accountabilities (SPA).

In the SPA, the Minister recognized the role EDC has played through its core mandate and expanded temporary domestic powers to add capacity to the market and fill the gaps created by the current credit crunch. The Minister also makes note of EDC's commitment to complementary participation in the domestic market, partnering with private sector financial institutions and the Business Development Bank of Canada (BDC).

The Minister also makes reference to the conclusion of the 2008 Legislative Review and the passage of legislative amendments to the *Export Development Act*, including the clarification of EDC's asset management powers for both the corporate and Canada accounts, and the ability for EDC to open independent offices in foreign markets. The SPA also notes the changes EDC intends to make to enhance its reporting and disclosure of credit insurance activities and the establishment of a credit insurance advisory group which includes EDC and private sector insurers.

In addition to the Legislative review, the Minister provides guidance to EDC for the following areas. The SPA:

- » encourages EDC to promote the department's Investment Cooperation Program, which facilitates business investments in developing markets by cost-sharing on various activities, and communicate a coordinated message to Canadian companies on the services provided by portfolio partners, such as the Canadian Commercial Corporation, and other partners such as BDC;
- » commends EDC for continuing to strike an appropriate balance between meeting the expectations of Canadians for socially and environmentally responsible practices while maintaining a level playing field for Canadian exporters, and requests an advanced briefing on EDC's 2010 review of its Environmental Policy, Environmental Review Directive, and Disclosure Policy before their release;
- » reiterates the Government of Canada's commitment to providing funding to developing countries to reduce their emissions and adapt to climate change as part of its commitments under the Copenhagen Accord and directs EDC to contribute to the whole-of-government approach to tracking its support for such initiatives;
- » expresses the Minister's appreciation for EDC's expertise as part of Canada's delegation to the OECD on Aircraft Sector Understanding negotiations; and
- » requests that EDC adhere to the spirit and intent of the cost containment measures for Crown corporations outlined in Budget 2010, and demonstrate how such measures will be applied in the 2011–2015 Corporate Plan.

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 billion. As of March 31, 2010 such commitments and liabilities totaled \$6.9 billion.

The Regulations under the Act related to domestic financing and insurance were suspended for a two-year period as part of the 2009 *Budget Implementation Act*. This suspension enables EDC to provide such support under its traditional export mandate without having to seek Ministerial authorization.

Legislative Obligations

Section 25 of the Act requires that the Minister for International Trade, in consultation with the Minister of Finance, initiate an independent review of the provisions and operation of the Act every ten 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. The report has been presented to EDC's Board of Directors, the Minister for International Trade and the President of the Treasury Board [a copy of the report has been posted on EDC's webpage].

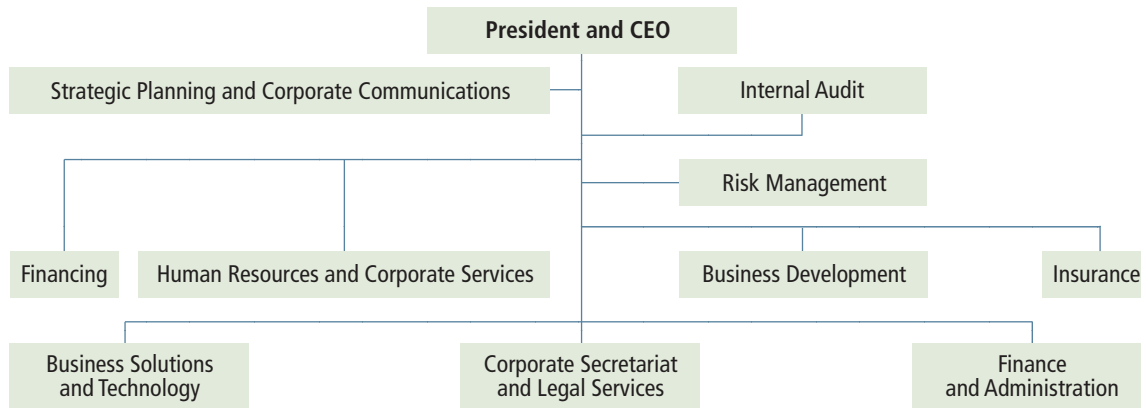
The Act also stipulates that an audit of the design and implementation of EDC's Environmental Review Directive (the Environment Audit) must be undertaken by the Office of the Auditor General (OAG) every five years. The 2008 review was presented to the EDC's Board of Directors and was tabled in Parliament in June 2009 [a copy of the review is available at www.oag-bvg.gc.ca].

Accountability to Parliament

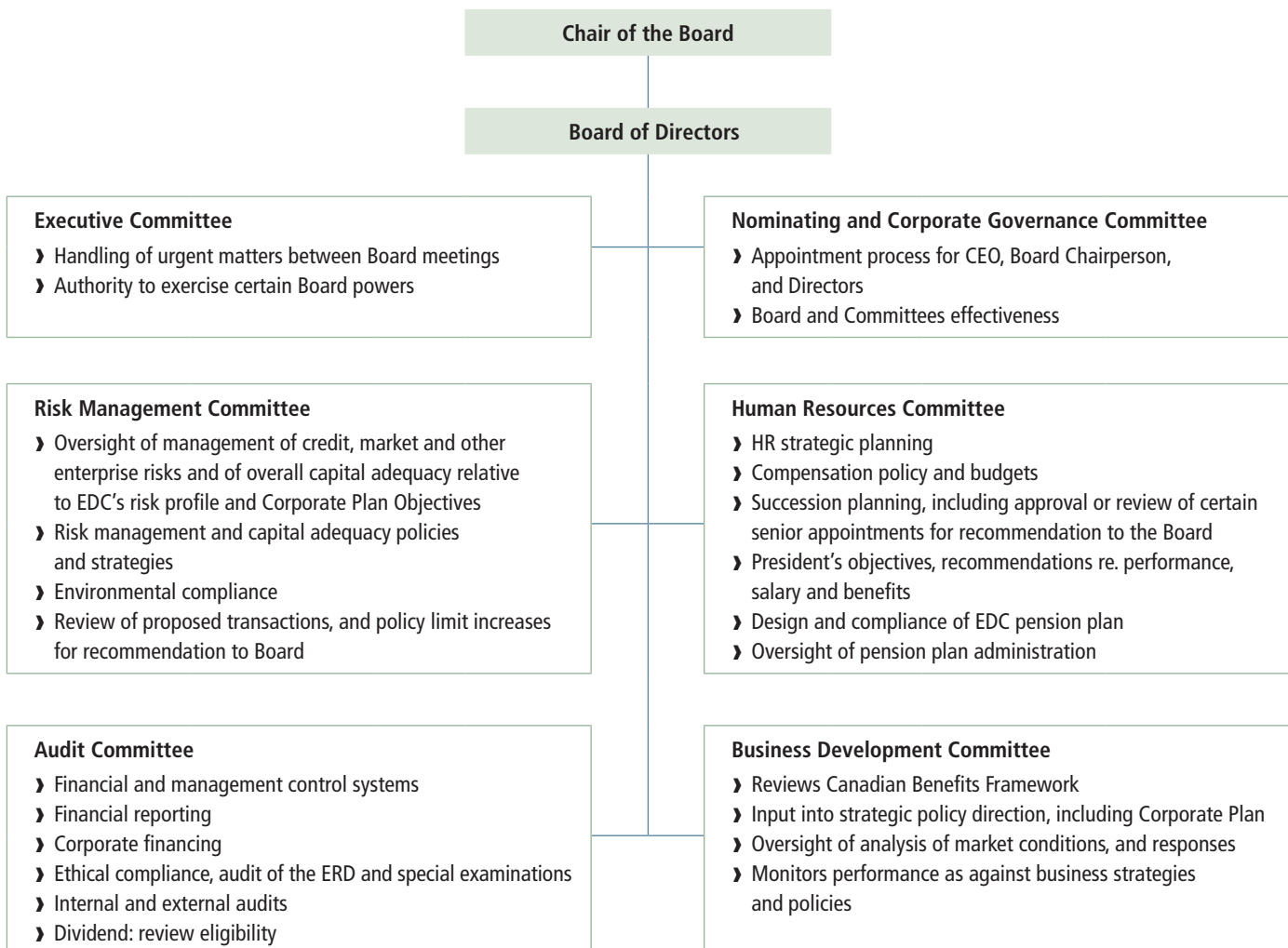
The Government of Canada primarily regulates Crown corporations through their enabling legislation and through the FAA. EDC is currently listed under Part I of Schedule III to the FAA, and as such is required to, among other things:

- › submit an Annual Report, a Corporate Plan and an Operating Budget to the responsible Minister; and
- › undergo regular audits by the OAG.

MANAGERIAL AND ORGANIZATIONAL STRUCTURE



BOARD AND COMMITTEE STRUCTURE



EDC'S FINANCING AND INSURANCE SOLUTIONS

INSURANCE

Protects policyholder against various types of risks.

PRODUCTS

CUSTOMER APPLICATIONS

Accounts Receivable Insurance

Protects policyholders against commercial credit risk such as non-payment by their buyers, whether due to insolvency, default, repudiation of goods or termination of contracts, as well as against political risks such as difficulty in converting or transferring currency, cancellation of export or import permits, and war-related risks. Coverage is available for companies of all sizes and some products have been streamlined to meet the needs of SMEs.

Export Protect

See Online Products and Tools.

Documentary Credits Insurance

Protects banks in Canada confirming or negotiating irrevocable letters of credit (ILCs) issued by foreign banks to exporters of Canadian goods and services. The policy provides insurance against the risk that the foreign bank may fail to pay the insured bank for payments due to the exporter under the ILC. This enables the exporter to look to a bank in Canada for payment rather than the buyer's bank abroad.

Contract Frustration Insurance

Tailored coverage used for one-off goods, services and project contracts.

Political Risk Insurance

Protects Canadian companies with investments in foreign countries and/or lenders which finance investments pursued by Canadian companies abroad. Traditional policies cover investors or lenders against currency conversion and/or transfer difficulties, expropriation by the host government, and political violence. Availability of political risk insurance can also allow companies to leverage additional financing for projects. The political risk insurance program includes the non-honouring of a sovereign payment obligation to a lender; the non-payment to an investor of an arbitral award against a sovereign entity; and coverage of the rights associated with mobile assets. In addition, EDC has made a number of changes to the program to accommodate small business transactions.

BONDING

Contract bonds assist Canadian companies to post or secure surety, guaranteeing their bid, performance and certain other obligations related to an export trade. They are issued in the form of a letter of guarantee by banks or as surety bonds by licensed sureties.

PRODUCTS	CUSTOMER APPLICATIONS
Performance Security Guarantee	Provides banks with a guarantee against any calls pursuant to the guarantees issued by the bank on an exporter's behalf and frees up working capital for the exporter.
Performance Security Insurance	Protects exporters from wrongful calls made on their bank letters of guarantee and is also available online under the Wrongful Call Program.
Foreign Exchange Facility Guarantee	Provides a second demand guarantee to the financial institution (FI) for 100% of the collateral provided to the FI with respect to the exporter's forward contracts facility, in the event that the exporter does not close the forward contract on the "settlement date".
Financial Security Guarantee	Provides the bank with a second demand guarantee to secure exporters' obligations in respect of suppliers and offshore working capital facilities.
Surety Risk Sharing	When an exporter, with existing but limited surety lines, is required to post surety bonds instead of bank letters of guarantee, EDC offers surety capacity in the form of Surety Re-Insurance to licensed sureties to increase capacity to facilitate the issuance of such bonds.
Surety Fronting Services	Available to exporters when financial profiles or volume of business does not meet normal surety underwriting guidelines. Surety bonds are thus issued by licensed sureties with the full support of EDC. This allows smaller exporters to access a surety market that is not typically available to them.

FINANCING

Enables Canadian companies to provide their customers with flexible, medium- or long-term financing. EDC offers a variety of structures that can be tailored to meet today's evolving market conditions the world over.

PRODUCTS

CUSTOMER APPLICATIONS

Lines of Credit

Provides a fast and inexpensive means by which exporters can promote sales via pre-arranged financing facilities between EDC and foreign banks or corporations. That is, EDC may lend to a foreign bank for on-lending to buyers of Canadian exports, or EDC can establish a line with a major foreign corporation which is purchasing from one or more Canadian exporters.

Loans

Loans between EDC and a buyer/borrower can be arranged for any export transaction. Two basic types of loans are available:

- › Buyer Credit involves a financing arrangement between EDC and the buyer (or a separate borrower on behalf of the buyer) to finance Canadian exports generally related to a specific export contract.
- › Supplier Credit transactions are structured to provide the exporter (supplier) with the ability to provide its buyer with extended payment terms. EDC can also provide pre-shipment financing to exporters, in conjunction with their bank, to finance costs directly related to an export contract.

EDC may also provide financing to Canadian companies to support their export business or their foreign investments.

Project Finance

Provides limited recourse financing to fund the construction of industrial and infrastructure projects across various sectors in support of Canadian exports to, or Canadian sponsor investment in, such projects. Project sponsors can additionally benefit from EDC's considerable expertise in arranging project finance transactions in cooperation with other lenders.

Guarantees

EDC may issue a guarantee to a financial institution to cover loans to foreign borrowers for the purchase of Canadian exports, or to exporters to provide financing to support their export business or foreign investments.

Equity and other Forms of Related Investments

EDC may provide equity and/or other forms of related investments (including fund investments) in support of next generation Canadian exporters and to facilitate globalization of existing Canadian companies. This allows EDC to offer broader support to Canadian firms, leverage additional sources of financing, foster cooperation among Canadian firms and their partners, and assist Canadians to compete globally.

ONLINE PRODUCTS & TOOLS

Provides another channel to inform, contact, transact with and serve Canadian companies.

PRODUCTS**CUSTOMER APPLICATIONS****EXPORT *Protect***

Provides online single transaction insurance coverage on a foreign buyer.

EXPORT *Check*

Provides a credit profile of a foreign buyer and/or a Dun & Bradstreet business information report.

EXPORT *Able?*

Helps potential exporters assess their company's overall readiness to export.

EXPORT *Finance Guide*

Centralizes information about the wide range of solutions for an exporter's financing needs based on their location in the transaction cycle.

Country Information

Provides comprehensive market intelligence on a variety of regions and countries enabling the user to assess business opportunities outside of Canada.

Online Solutions Advisor

A diagnostic tool that helps to identify the appropriate EDC product or service based on the exporter's need(s).

Currency Converter

Provides conversions into and from a variety of world currencies, for both current day and past dates (provided by the Bank of Canada).

Trade Links

Provides exporters with web-referrals to government and certain not-for-profit providers of export-related information and services.

CANADIAN EXPORT FORECAST BY SECTOR AND MARKET

CANADIAN EXPORT FORECAST BY SECTOR AND MARKET					
SECTOR	MARKET	CAD (\$B) 2009	% SHARE OF TOTAL EXPORTS 2009	EXPORT OUTLOOK (% GROWTH)	
				2010	2011
Agri-food	Developed	25.8	7.7	-6.1	3.3
	Emerging	12.9	3.8	-12.5	6.7
Energy	Developed	78.3	23.4	21.3	6.4
	Emerging	3.3	1.0	36.8	9.5
Forestry	Developed	20.0	6.0	24.1	18.5
	Emerging	4.4	1.3	33.1	9.6
Ores and Metals	Developed	36.1	10.8	19.3	0.4
	Emerging	6.8	2.0	20.5	6.1
Other Industrial Products	Developed	5.1	1.5	0.2	5.1
	Emerging	0.6	0.2	5.8	6.5
Chemical, Plastics	Developed	27.7	8.3	8.9	7.1
	Emerging	3.0	0.9	16.2	11.3
Fertilizers	Developed	3.9	1.2	8.7	23.5
	Emerging	1.3	0.4	33.5	45.5
Aircraft and Parts	Developed	10.0	3.0	-19.5	-3.6
	Emerging	1.4	0.4	28.1	9.9
Ground Transportation	Developed	1.8	0.5	0.4	3.6
	Emerging	0.4	0.1	6.6	11.0
Advanced Technology	Developed	12.7	3.8	-14.0	7.3
	Emerging	2.6	0.8	-0.3	14.4
Industrial M&E	Developed	18.2	5.4	4.1	7.3
	Emerging	4.9	1.5	6.1	11.5
Automotive	Developed	38.6	11.5	27.1	8.0
	Emerging	1.2	0.3	11.3	9.8
Consumer Goods	Developed	7.2	2.1	-6.1	6.1
	Emerging	0.4	0.1	-9.1	13.1
Special Transactions	Developed	5.9	1.8	8.9	4.0
	Emerging	0.2	0.1	1.5	4.7
TOTAL Merchandise		334.7	100.0	12	7
Developed Markets		291.2	87.0	13	7
Emerging Markets		43.5	13.0	10	10

Source: EDC Economics. 2009 is actual data, 2010 and 2011 are forecasted (summer 2010 GEF)