



BUSINESS AS UNUSUAL

EXPORT DEVELOPMENT CANADA

Quarterly Financial Report
June 30, 2021

Unaudited

Canada

 EDC

TABLE OF CONTENTS

Management's Discussion and Analysis

Overview	2
Summary of Financial Results	5
Statement of Management Responsibility.....	9

Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Financial Position	10
Condensed Consolidated Statement of Comprehensive Income.....	11
Condensed Consolidated Statement of Changes in Equity	12
Condensed Consolidated Statement of Cash Flows	13
Notes to the Condensed Consolidated Financial Statements	14
Note 1. Significant Accounting Policies	14
Note 2. Loans and Allowance for Losses.....	15
Note 3. Premium and Claims Liabilities	19
Note 4. Contingent Liabilities	19
Note 5. Share Capital.....	20
Note 6. Fair Value of Financial Instruments	20
Note 7. Financial Instrument Risks	22
Note 8. Net Insurance Premiums and Guarantee Fees.....	23
Note 9. Claims-Related Expenses (Recovery)	23
Note 10. Other (Income) Expenses	24
Note 11. Administrative Expenses.....	24
Note 12. Related Party Transactions	24

Caution regarding forward-looking statements

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

OVERVIEW

Export Development Canada (EDC) is Canada's export credit agency. Our mandate is to support and develop, directly or indirectly, Canada's export trade, and the capacity of Canada to engage in trade and respond to international business opportunities, as well as to provide development financing and other forms of development support in a manner consistent with Canada's international development priorities. We provide insurance and financial services, bonding products, small business solutions as well as online credit risk management tools. Our customers are Canadian exporters, investors and their international buyers. We place a particular emphasis on small and medium enterprises by developing tools to help them succeed in international markets. EDC is a Crown corporation, wholly owned by the Government of Canada and accountable to Parliament through the Minister of Small Business, Export Promotion and International Trade. Our revenue is generated primarily by collecting interest on our loans, fees on our guarantee products and premiums on our insurance products.

A number of measures were announced by the Government of Canada starting in March 2020 to increase EDC's capacity to help Canadian companies facing extreme financial challenges brought on by the global response to Novel Coronavirus 2019 (COVID-19). These measures include the activation of the Business Credit Availability Program (BCAP) which increased business volumes in the commercial financing and insurance programs through our existing suite of financial solutions, and the expansion of our domestic capabilities to enable us to help Canada's financial institutions provide financing and credit solutions to Canadian businesses, helping even more companies raise the credit necessary to survive this unprecedented crisis.

Economic Environment

The global economy was quite resilient in the first half of 2021. In the second quarter, vaccination rates around the world picked up substantially, allowing for vulnerable sectors, households and businesses to gradually reopen and begin a sustained recovery. That is showing up in prices, with rapid growth and ongoing supply chain disruptions leading to shortages of key industrial inputs, including wood products, metals and semiconductors. With rapidly-spreading COVID-19 variants, another wave of infections is a downside risk to the short-term outlook. Global equity markets and commodity prices continue to rally with the resumption of global activity. The benchmark West Texas Intermediate price remains elevated at US\$66 per barrel, well above pre-pandemic levels. U.S. 10-year treasury yields averaged 1.6% in the second quarter. In April, global goods trade rose 0.5% month-over-month, keeping up strong momentum, and significant accumulated savings are expected to catapult economic growth in the second half of 2021.

Among advanced economies, the United States is leading the recovery. A US\$1 trillion infrastructure package is expected to provide more momentum to growth in the near-term. The Federal Reserve continues to monitor risks to the outlook, including temporary above-target inflation and the notable labour market challenges. Their key policy interest rate remains at its effective lower bound of 0% to 0.25%, and quantitative easing programs remain in place. Europe's economy experienced a sharper decline in 2020, weighed down by the wide spread of COVID-19. However, manufacturing orders have remained upbeat, showing signs of supply coming online.

Canada's economy was suppressed for most of the second quarter, amid lockdown measures to limit the third wave of COVID-19. Following a strong start to 2021, Canadian exports are facing temporary setbacks but are on track for double-digit growth this year. Housing prices in key metropolitan markets have started to cool but remain elevated. The Canadian labour market is recovering well and consumer spending remains high, despite some temporary negative growth. The Bank of Canada remains accommodative and has held its policy interest rate at its effective lower bound since the start of the pandemic. The Canadian dollar has strengthened alongside the rapid improvements in the global price of oil, averaging 81 cents per U.S. dollar in the second quarter.

Risk Management

Our business activities expose us to a wide variety of risks including strategic, financial and operational risks. We manage risk with a three lines of defence risk governance structure, which emphasizes and balances strong central oversight and control of risk with clear accountability for and ownership of risk within the “front lines”. The structure supports the cascade of EDC’s risk appetite throughout the organization and provides forums for risks to be appropriately considered, discussed, debated and factored into business decisions at all levels and across all functions. This structure will allow us to continue to manage our business as risks are elevated in the current economic environment and as we expand our risk appetite to help with the COVID-19 response. For a more comprehensive discussion on our risk management, please refer to pages 109-117 of our 2020 Annual Report. Refer to Note 7 of the accompanying financial statements for details on financial instrument risks.

Impact of Foreign Exchange Translation on Financial Results

Our foreign currency-denominated results are impacted by exchange rate fluctuations. The Canadian dollar relative to the U.S. dollar strengthened in the second quarter of 2021, resulting in a rate of \$0.81 at the end of the quarter compared to \$0.79 at the end of the prior year. The impact of the stronger dollar was a decrease to our assets and liabilities which are primarily denominated in U.S. dollars and are translated to Canadian dollars at rates prevailing at the statement of financial position date. In addition, the Canadian dollar average for the second quarter of 2021 strengthened against the U.S. dollar, as the Canadian dollar averaged \$0.81 in the second quarter, compared to \$0.72 for the second quarter of 2020. This had an unfavourable impact on our financial results, as the components of net income as well as our business facilitated are translated at the average exchange rates.

Business Facilitated

Financing and investments business facilitated decreased by 11% from the same period in 2020 due to a decrease in project finance across multiple sectors. The decrease was partially offset by an increase in loan guarantees due to COVID-support initiatives.

Business facilitated for credit insurance increased by 20% compared to the same period in 2020 primarily due to new policies in the infrastructure & environment and light manufacturing sectors, a reflection of continued demand for risk mitigation resulting from the economic environment.

Business facilitated for the financial institutions insurance program decreased by 40% mainly due to a decrease in demand for the product by an existing policyholder.

Business facilitated for the international trade guarantee product group decreased by 21% mainly due to policy cancellations and expirations in the oil & gas, infrastructure and environment and surface transportation sectors and the timing of policy renewals in the financial institutions sector.

Within our political risk insurance product group, business facilitated decreased by 64% compared to the same period in 2020 mainly due to policy expirations in the infrastructure & environment sector and the timing of policy renewals in the surface transportation sector. In addition, new business is no longer underwritten in this product group.

BCAP support in the first half of 2021 totalled \$1.1 billion, mainly in guarantees for small and medium-sized enterprises, which comprises 82% of total BCAP transactions.

Business Facilitated

	For the six months ended	
	Jun 2021	Jun 2020
<i>(in millions of Canadian dollars)</i>		
Business Facilitated		
Direct lending	6,537	6,365
Project finance	1,074	2,901
Loan guarantees	1,649	1,200
Investments	203	127
Total financing and investments	9,463	10,593
Credit insurance	33,410	27,872
Financial institutions insurance	3,460	5,749
International trade guarantee	3,791	4,769
Political risk insurance	455	1,278
Total insurance	41,116	39,668
Total	\$50,579	\$50,261

SUMMARY OF FINANCIAL RESULTS

Financial Performance

<i>(in millions of Canadian dollars)</i>	For the three months ended		For the six months ended		
	Jun 2021	Jun 2020	Jun 2021	Jun 2020	Jun 2021 Corporate Plan
Net financing and investment income	296	305	603	607	625
Net insurance premiums and guarantee fees ⁽¹⁾	82	63	175	128	188
Realized gains (losses) ⁽²⁾	56	31	77	74	(45)
Net revenue	434	399	855	809	768
Administrative expenses	148	132	290	258	341
Provision for (reversal of) credit losses	(8)	1,167	(233)	2,321	301
Claims-related expenses (recovery)	(24)	252	83	272	150
Income (loss) before unrealized (gains) losses	318	(1,152)	715	(2,042)	(24)
Unrealized (gains) losses on financial instruments ⁽²⁾	(192)	280	(383)	304	-
Net income (loss)	510	(1,432)	1,098	(2,346)	(24)
Other comprehensive income (loss)	103	6	149	(114)	19
Comprehensive income (loss)	\$613	\$(1,426)	\$1,247	\$(2,460)	\$(5)

⁽¹⁾ Includes loan guarantee fees.

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

Quarter Highlights

We had **net income** of \$510 million in the second quarter of 2021 compared to a **net loss** of \$1.4 billion for the same period in 2020 mainly due to a decrease in the provision for credit losses and unrealized gains on our financial instruments carried at fair value.

Net revenue was \$35 million higher than the same period in 2020 primarily due to an increase in credit insurance premiums and loan guarantee fee revenue related to COVID-19 support programs, as well as increases due to realized gains in our investments portfolio.

We had **unrealized gains on financial instruments** of \$192 million in the second quarter of 2021 primarily due to strong performance in our private equity and venture capital investments portfolio.

Claims-related recoveries were \$24 million in the second quarter of 2021 mainly related to a decrease in the allowance for insurance claims due to a reduction in the risk adjustment related to the COVID-19 pandemic.

We recorded **other comprehensive income** of \$103 million due to an improvement in the discount rate and positive returns on plan assets.

Year to Date Highlights

Net income for the first six months of 2021 was \$1.1 billion compared to a **net loss** of \$2.3 billion for the same period in 2020 mainly due to a decrease in the provision for credit losses, unrealized gains on our financial instruments carried at fair value and a decrease in claims-related expenses.

Net revenue was \$46 million higher than the same period in 2020 primarily due to an increase in loan guarantee fee revenue related to COVID-19 support programs and an increase in credit insurance premiums. Net revenue was higher than Corporate Plan mainly due to the realized gains in our investments portfolio, partially offset by foreign exchange translation and lower business than anticipated in our Business Credit Availability Program.

Claims-related expenses were \$189 million lower than the same period in 2020 and \$67 million lower than the Corporate Plan mainly due to a decrease in the allowance for insurance claims due to a reduction in the risk adjustment related to the COVID-19 pandemic and lower net claims paid related to the COVID-19 pandemic than previously anticipated.

We had **unrealized gains on financial instruments** of \$383 million in the first six months of 2021 largely due to the volatility associated with our financial instruments carried at fair value through profit or loss. This includes unrealized gains of \$281 million as a result of strong performance in our investments portfolio. Due to the volatility and difficulty in estimating fair value gains or losses on financial instruments, a forecast for these items is not included in the Corporate Plan.

We recorded **other comprehensive gains** of \$149 million mainly due to an increase in the discount rates used to value our pension obligations and improvements in returns from investments.

We recorded a **provision reversal** of \$233 million compared to a \$2.3 billion provision charge for credit losses in the prior year period. The reversal is primarily due to an improvement in the macroeconomic forecast, partially offset by a significant loan restructuring in the oil and gas sector.

Provision for (Reversal of) Credit Losses by Sector

Activity within the provision for (reversal of) credit losses during the second quarter by sector was as follows:

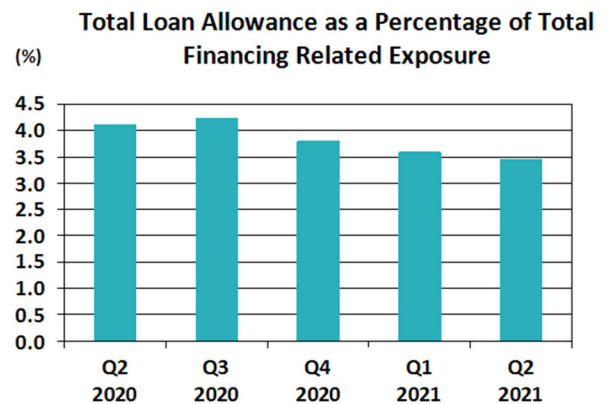
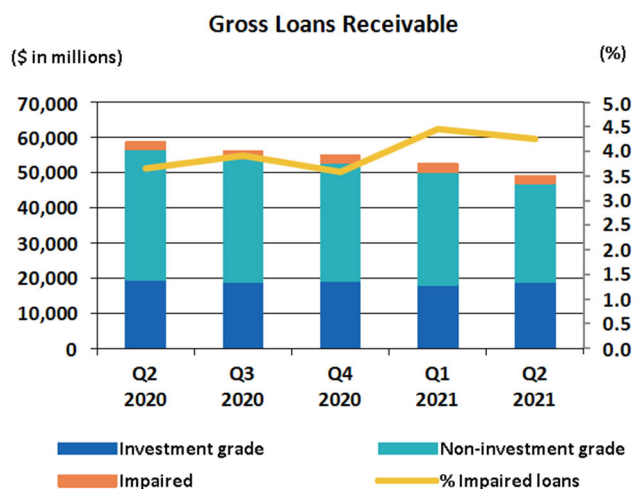
<i>(in millions of Canadian dollars)</i>				<u>For the three months ended</u>		
	Performing	Impaired	Jun 2021 Total	Performing	Impaired	Jun 2020 Total
Mining	(12)	(17)	(29)	7	213	220
Information and communication technologies	(6)	(9)	(15)	(58)	314	256
Infrastructure and environment	(7)	(2)	(9)	(17)	13	(4)
Surface transportation	(9)	4	(5)	(13)	4	(9)
Light manufacturing	(2)	(2)	(4)	5	38	43
Resources	(5)	1	(4)	3	-	3
Oil and gas	41	(19)	22	(131)	149	18
Aerospace	30	3	33	366	87	453
Other	3	-	3	187	-	187
Total	\$33	\$(41)	\$(8)	\$349	\$818	\$1,167

Activity within the provision for (reversal of) credit losses during the first six months by sector was as follows:

<i>(in millions of Canadian dollars)</i>	Jun			<u>For the six months ended</u>		
	Performing	Impaired	Total	Performing	Impaired	Total
Information and communication technologies	(59)	(12)	(71)	57	313	370
Light manufacturing	(52)	(7)	(59)	94	42	136
Surface transportation	(24)	(24)	(48)	182	7	189
Mining	(28)	(17)	(45)	80	216	296
Infrastructure and environment	(38)	3	(35)	73	12	85
Resources	(34)	13	(21)	34	(1)	33
Oil and gas	18	(34)	(16)	119	149	268
Aerospace	(18)	89	71	605	89	694
Other	(9)	-	(9)	250	-	250
Total	\$(244)	\$11	\$(233)	\$1,494	\$827	\$2,321

Financial Position

As at (in millions of Canadian dollars)	Jun 2021	Dec 2020	Jun 2021 Corporate Plan
Total assets	62,697	67,697	64,846
Total liabilities	49,440	48,407	49,590
Equity	13,257	19,290	15,256
Gross loans receivable	49,078	54,772	55,067
Total allowances - loans portfolio	2,320	2,900	3,984
Total allowances - insurance portfolio	580	540	494



Total assets are \$5.0 billion lower than December 2020 primarily due to a decrease in gross loans receivable as a result of net loan repayments of \$3.9 billion as well as foreign exchange translation.

The decrease in **equity** from December 2020 is due to the declarations and payments of a \$580 million dividend according to our current dividend policy and a special dividend of \$6.7 billion based on the capital surplus position of the Business Credit Availability Program and a targeted Internal Capital Adequacy Assessment Process ratio. Please refer to pages 107-108 of our 2020 Annual Report for a more comprehensive discussion on our capital management.

Loan allowances are \$580 million lower than December 2020 primarily due to an improvement in the macroeconomic forecast in the first half of 2021 and net loan repayments. Loan allowance as a percentage of total financing related exposure has decreased since the first quarter of 2021 due to the provision reversal and net loan repayments as previously discussed.

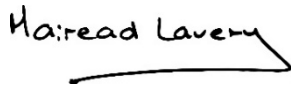
Impaired loans as a percentage of gross loans receivable have increased since the fourth quarter of 2020 largely due to the impairment of two obligors in the aerospace sector.

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these condensed consolidated quarterly financial statements in accordance with the Treasury Board of Canada's *Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports*, and for such internal controls as management determines is necessary to enable the preparation of condensed consolidated quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the condensed consolidated quarterly financial statements.

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

Based on our knowledge, these unaudited condensed consolidated quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at June 30, 2021 and for the periods presented in the condensed consolidated quarterly financial statements.



Mairead Lavery,
President & CEO



Ken Kember,
Senior Vice-President & CFO

Ottawa, Canada
August 19, 2021

Export Development Canada

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

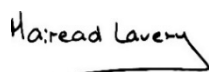
(in millions of Canadian dollars)

As at

	Notes	Jun 2021	Dec 2020
Assets			
Cash		246	182
Marketable securities		10,587	10,563
Derivative instruments		1,849	2,126
Loans receivable	2	49,030	54,722
Allowance for losses on loans	2	(2,150)	(2,630)
Investments		2,379	2,032
Reinsurers' share of premium and claims liabilities	3	140	150
Other assets		211	260
Retirement benefit assets		160	45
Property, plant and equipment		40	40
Intangible assets		74	84
Right-of-use assets		131	123
Total Assets		\$62,697	\$67,697
Liabilities and Equity			
Accounts payable and other credits		422	179
Loans payable		46,660	45,020
Derivative instruments		889	1,623
Lease liabilities		161	153
Retirement benefit obligations		239	262
Allowance for losses on loan commitments	2	30	50
Premium and claims liabilities	3	840	820
Loan guarantees	2	199	300
Total Liabilities		49,440	48,407
<i>Financing commitments (Note 2) and contingent liabilities (Note 4)</i>			
Equity			
Share capital	5	12,300	12,300
Retained earnings		957	6,990
Total Equity		13,257	19,290
Total Liabilities and Equity		\$62,697	\$67,697

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

These financial statements were approved for issuance by the Board of Directors on August 19, 2021.


Robert S. McLeese
Director

Mairead Lavery
Director

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

	Notes	For the three months ended		For the six months ended	
		Jun 2021	Jun 2020	Jun 2021	Jun 2020
Financing and Investment Revenue:					
Loan		363	486	747	1,004
Marketable securities		21	46	43	103
Investments		4	7	4	8
Total financing and investment revenue		388	539	794	1,115
Interest expense		86	225	180	493
Financing-related expenses		6	9	11	15
Net Financing and Investment Income		296	305	603	607
Loan Guarantee Fees					
Insurance premiums and guarantee fees		67	60	137	121
Reinsurance ceded		(7)	(8)	(16)	(17)
Net Insurance Premiums and Guarantee Fees	8	60	52	121	104
Other (Income) Expenses	10	(248)	249	(460)	230
Administrative Expenses	11	148	132	290	258
Income (Loss) before Provision and Claims-Related Expenses		478	(13)	948	247
Provision for (Reversal of) Credit Losses	2	(8)	1,167	(233)	2,321
Claims-Related Expenses (Recovery)	9	(24)	252	83	272
Net Income (Loss)		510	(1,432)	1,098	(2,346)
Other comprehensive income (loss):					
Retirement benefit plans remeasurement		103	6	149	(114)
Comprehensive Income (Loss)		\$613	(\$1,426)	\$1,247	(\$2,460)

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

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

	Notes	For the three months ended		For the six months ended	
		Jun 2021	Jun 2020	Jun 2021	Jun 2020
Share Capital	5	12,300	3,000	12,300	3,000
Retained Earnings					
Balance beginning of period		344	7,389	6,990	8,423
Net income (loss)		510	(1,432)	1,098	(2,346)
Other comprehensive income (loss)					
Retirement benefit plans remeasurement		103	6	149	(114)
Dividends	5	-	-	(7,280)	-
Balance end of period		957	5,963	957	5,963
Total Equity End of Period		\$13,257	\$8,963	\$13,257	\$8,963

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

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

	For the three months ended		For the six months ended	
	Jun 2021	Jun 2020	Jun 2021	Jun 2020
Cash Flows from (used in) Operating Activities				
Net income (loss)	510	(1,432)	1,098	(2,346)
Adjustments to determine net cash flows from (used in) operating activities				
Provision for (reversal of) credit losses	(8)	1,167	(233)	2,321
Actuarial change in the net allowance for claims on insurance	(36)	203	63	202
Depreciation and amortization	8	9	16	20
Realized gains	(48)	(22)	(85)	(72)
Changes in operating assets and liabilities				
Change in accrued interest and fees on loans receivable	16	12	(28)	(44)
Change in accrued interest and fair value of marketable securities	(2)	7	101	(235)
Change in accrued interest and fair value of loans payable	(38)	113	(218)	569
Change in fair value of investments	(266)	151	(275)	189
Change in derivative instruments	245	257	(43)	71
Other	328	(152)	208	102
Loan disbursements	(2,997)	(6,930)	(7,208)	(15,219)
Loan repayments and principal recoveries from loan asset sales	5,535	5,243	11,090	9,517
Net cash from (used in) operating activities	3,247	(1,374)	4,486	(4,925)
Cash Flows from (used in) Investing Activities				
Disbursements for investments	(100)	(99)	(195)	(202)
Receipts from investments	89	40	167	93
Purchases of marketable securities	(1,988)	(2,341)	(3,894)	(4,226)
Sales/maturities of marketable securities	1,789	2,094	4,089	4,697
Purchases of property, plant and equipment	(1)	-	(1)	(2)
Purchases of intangible assets	-	-	(1)	(1)
Net cash from (used in) investing activities	(211)	(306)	165	359
Cash Flows from (used in) Financing Activities				
Issue of long-term loans payable	6,143	5,152	6,810	11,362
Repayment of long-term loans payable	(4,111)	(1,403)	(5,200)	(7,205)
Issue of short-term loans payable	5,325	4,925	12,868	19,970
Repayment of short-term loans payable	(6,577)	(9,569)	(11,311)	(18,028)
Disbursements from sale/maturity of derivative instruments	(31)	(70)	(32)	(88)
Receipts from sale/maturity of derivative instruments	16	18	21	69
Issue of share capital	-	1,667	-	1,667
Dividends paid	(4,280)	-	(7,280)	-
Net cash from (used in) financing activities	(3,515)	720	(4,124)	7,747
Effect of exchange rate changes on cash and cash equivalents	(17)	(194)	(50)	29
Net increase (decrease) in cash and cash equivalents	(496)	(1,154)	477	3,210
Cash and cash equivalents				
Beginning of period	3,848	5,649	2,875	1,285
End of period	\$3,352	\$4,495	\$3,352	\$4,495
Cash and cash equivalents are comprised of:				
Cash	246	-	246	-
Cash equivalents included within marketable securities	3,106	4,495	3,106	4,495
	\$3,352	\$4,495	\$3,352	\$4,495
Operating Cash Flows from Interest				
Cash paid for interest	\$98	\$222	\$232	\$525
Cash received for interest	\$378	\$513	\$734	\$998

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

Notes to the Condensed Consolidated Financial Statements

1. Significant Accounting Policies

Basis of Presentation

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

Except as indicated below, these condensed interim consolidated financial statements follow the same accounting policies and methods of computation as our audited consolidated financial statements for the year ended December 31, 2020. They should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2020 and the accompanying notes as set out on pages 135-185 of our 2020 Annual Report.

Pursuant to the Export Development Act, the Minister of Small Business, Export Promotion and International Trade, with the concurrence of the Minister of Finance, may authorize us to undertake certain financial and contingent liability transactions on behalf of the Government of Canada. These transactions and the legislative authorities that underlie them have come to be known collectively as “Canada Account”. Accounts for these transactions are maintained separately from our accounts and are consolidated annually as at March 31 with the financial statements of the Government of Canada, which are reported upon separately by the Government and audited by the Auditor General of Canada.

Basis of Consolidation

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

Application of New International Financial Reporting Standards

New standards, amendments and interpretations adopted during the quarter

There were no new standards, amendments or interpretations adopted in the second quarter of the year.

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

There were no new standards, amendments or interpretations issued in the first half of the year that would have a possible effect on the consolidated financial statements in the future.

The standards, amendments and interpretations issued but not yet in effect are disclosed in Note 3 of our audited consolidated financial statements for the year ended December 31, 2020.

Use of Estimates and Key Judgments

The preparation of financial statements requires the use of estimates and key judgments. Judgment is required in the selection of accounting policies, and their application requires the use of estimates and assumptions to arrive at the reported carrying values of our assets and liabilities. The COVID-19 pandemic gives rise to heightened uncertainty and increases the need to apply judgment in evaluating the economic environment and its impact on significant estimates. The uncertainty created by the COVID-19 pandemic has increased the level of judgment applied in estimating the allowance for credit losses and premiums and claims liabilities. Other areas where management has made use of significant estimates and exercised judgment include assets held for sale, retirement benefit plans and financial instruments measured at fair value. Refer to page 138 of our 2020 Annual Report for details.

2. Loans and Allowance for Credit Losses

Loans Receivable

<i>(in millions of Canadian dollars)</i>	Jun 2021	Dec 2020
Gross loans receivable	49,078	54,772
Accrued interest and fees receivable	187	188
Deferred loan revenue and other	(235)	(238)
Total loans receivable	\$49,030	\$54,722

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

<i>(in millions of Canadian dollars)</i>	2021	2020
Balance January 1	54,772	51,601
Principal repayments	(10,624)	(9,517)
Principal recoveries from loan asset sales	(466)	-
Disbursements	7,208	15,219
Loans written off	(161)	(7)
Derecognition due to modification	(159)	-
New origination due to modification	34	-
Capitalized interest	30	11
Foreign exchange translation	(1,556)	1,415
Balance June 30	\$49,078	\$58,722

Exposure and Allowance by Credit Grade

				Jun 2021		Dec 2020	
	Non-credit- impaired		Credit- impaired		% of		% of
<i>(in millions of Canadian dollars)</i>	Stage 1	Stage 2	Stage 3	\$	total	\$	total
Gross loans receivable							
Investment grade*	18,279	593	-	18,872	39%	19,207	35%
Non-investment grade	13,753	14,364	-	28,117	57%	33,601	61%
Individually impaired	-	-	2,055	2,055	4%	1,964	4%
Originated credit-impaired	-	-	34	34	-	-	-
Gross loans receivable	32,032	14,957	2,089	49,078	100%	54,772	100%
Allowance for losses	63	1,074	1,013	2,150		2,630	
Net carrying value - loans receivable	\$31,969	\$13,883	\$1,076	\$46,928		\$52,142	
Loan commitments							
Investment grade*	5,253	192	-	5,445	44%	5,600	36%
Non-investment grade	3,630	3,208	-	6,838	56%	10,045	64%
Individually impaired	-	-	30	30	-	61	-
Total loan commitments	\$8,883	\$3,400	\$30	\$12,313	100%	\$15,706	100%
Allowance for losses	-	20	10	30		50	
Loan guarantees							
Investment grade*	316	97	-	413	10%	451	11%
Non-investment grade	2,716	1,058	-	3,774	88%	3,610	86%
Individually impaired	-	-	96	96	2%	112	3%
Total loan guarantees	\$3,032	\$1,155	\$96	\$4,283	100%	\$4,173	100%
Allowance for losses	32	42	66	140		220	

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

Allowance for Losses

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

	Jun 2021				Jun 2020			
<i>(in millions of Canadian dollars)</i>	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Allowance for losses on loans receivable								
Balance beginning of period	81	1,032	1,297	2,410	131	1,365	514	2,010
Provision for (reversal of) credit losses								
Transfer to stage 1	18	(18)	-	-	132	(132)	-	-
Transfer to stage 2	(3)	3	-	-	(36)	39	(3)	-
Transfer to stage 3	-	(3)	3	-	-	(87)	87	-
Remeasurements	(30)	116	(25)	61	(63)	421	703	1,061
New originations	5	31	4	40	63	50	6	119
Net repayments and maturities	(6)	(75)	(8)	(89)	(5)	(54)	(9)	(68)
Total provision for (reversal of) credit losses	(16)	54	(26)	12	91	237	784	1,112
Write-offs	(1)	-	(112)	(113)	-	-	(3)	(3)
Modification resulting in derecognition	-	-	(127)	(127)	-	-	-	-
Foreign exchange translation	(1)	(12)	(19)	(32)	(3)	(29)	(27)	(59)
Balance end of period	63	1,074	1,013	2,150	219	1,573	1,268	3,060
Allowance for losses on loan commitments								
Balance beginning of period	2	21	17	40	7	63	-	70
Provision for (reversal of) credit losses								
Transfer to stage 1	-	-	-	-	8	(8)	-	-
Transfer to stage 2	(1)	1	-	-	(5)	5	-	-
Remeasurements	(1)	(1)	(1)	(3)	(9)	13	47	51
New originations	-	1	-	1	2	-	-	2
Net repayments and maturities	-	(2)	(6)	(8)	-	-	(31)	(31)
Total provision for (reversal of) credit losses	(2)	(1)	(7)	(10)	(4)	10	16	22
Foreign exchange translation	-	-	-	-	-	(2)	-	(2)
Balance end of period	-	20	10	30	3	71	16	90
Allowance for losses on loan guarantees								
Balance beginning of period	36	47	67	150	20	76	54	150
Provision for (reversal of) credit losses								
Transfer to stage 1	6	(6)	-	-	10	(10)	-	-
Transfer to stage 2	(12)	12	-	-	(22)	22	-	-
Transfer to stage 3	-	(2)	2	-	-	(1)	1	-
Remeasurements	(19)	(8)	-	(27)	(12)	(6)	27	9
New originations	24	-	-	24	47	-	-	47
Net repayments and maturities	(3)	(1)	(3)	(7)	(9)	(4)	(10)	(23)
Total provision for (reversal of) credit losses	(4)	(5)	(1)	(10)	14	1	18	33
Foreign exchange translation	-	-	-	-	-	(3)	-	(3)
Balance end of period	32	42	66	140	34	74	72	180
Total allowance for losses on loans receivable, loan commitments and loan guarantees	\$95	\$1,136	\$1,089	\$2,320	\$256	\$1,718	\$1,356	\$3,330

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	Jun 2021				Jun 2020			
<i>(in millions of Canadian dollars)</i>	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Allowance for losses on loans receivable								
Balance beginning of period	132	1,244	1,254	2,630	156	294	480	930
Provision for (reversal of) credit losses								
Transfer to stage 1	70	(70)	-	-	134	(134)	-	-
Transfer to stage 2	(25)	25	-	-	(146)	149	(3)	-
Transfer to stage 3	-	(23)	23	-	-	(87)	87	-
Remeasurements	(108)	3	45	(60)	-	1,284	717	2,001
New originations	12	83	22	117	79	111	13	203
Net repayments and maturities	(13)	(147)	(31)	(191)	(8)	(38)	(18)	(64)
Total provision for (reversal of) credit losses	(64)	(129)	59	(134)	59	1,285	796	2,140
Write-offs	(1)	-	(135)	(136)	-	-	(6)	(6)
Modification resulting in derecognition	-	-	(127)	(127)	-	-	-	-
Foreign exchange translation	(4)	(41)	(38)	(83)	4	(6)	(2)	(4)
Balance end of period	63	1,074	1,013	2,150	219	1,573	1,268	3,060
Allowance for losses on loan commitments								
Balance beginning of period	-	32	18	50	9	-	1	10
Provision for (reversal of) credit losses								
Transfer to stage 1	1	(1)	-	-	8	(8)	-	-
Transfer to stage 2	(1)	1	-	-	(13)	13	-	-
Remeasurements	(2)	(11)	(3)	(16)	(8)	67	48	107
New originations	2	1	-	3	7	-	-	7
Net repayments and maturities	-	(2)	(5)	(7)	-	-	(33)	(33)
Total provision for (reversal of) credit losses	-	(12)	(8)	(20)	(6)	72	15	81
Foreign exchange translation	-	-	-	-	-	(1)	-	(1)
Balance end of period	-	20	10	30	3	71	16	90
Allowance for losses on loan guarantees								
Balance beginning of period	59	82	79	220	19	7	54	80
Provision for (reversal of) credit losses								
Transfer to stage 1	46	(46)	-	-	13	(13)	-	-
Transfer to stage 2	(41)	41	-	-	(37)	37	-	-
Transfer to stage 3	-	(2)	2	-	-	(1)	1	-
Remeasurements	(82)	(30)	3	(109)	(11)	60	37	86
New originations	51	-	2	53	56	4	-	60
Net repayments and maturities	(1)	(2)	(20)	(23)	(6)	(18)	(22)	(46)
Total provision for (reversal of) credit losses	(27)	(39)	(13)	(79)	15	69	16	100
Foreign exchange translation	-	(1)	-	(1)	-	(2)	2	-
Balance end of period	32	42	66	140	34	74	72	180
Total allowance for losses on loans receivable, loan commitments and loan guarantees	\$95	\$1,136	\$1,089	\$2,320	\$256	\$1,718	\$1,356	\$3,330

Financing Commitments

The following table shows our outstanding financing commitments by type:

<i>(in millions of Canadian dollars)</i>	Jun 2021	Dec 2020
Signed loan commitments	12,313	15,706
Letters of offer	1,618	1,811
Unallocated confirmed lines of credit	114	159
Total financing commitments	\$14,045	\$17,676

3. Premium and Claims Liabilities

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

<i>(in millions of Canadian dollars)</i>	Jun 2021			Dec 2020		
	Insurance	Reinsurance	Net liabilities	Insurance	Reinsurance	Net liabilities
Credit insurance	400	(30)	370	420	(30)	390
Financial institutions insurance	10	-	10	10	-	10
International trade guarantee	220	(10)	210	180	(10)	170
Political risk insurance	210	(100)	110	210	(110)	100
Total	\$840	\$(140)	\$700	\$820	\$(150)	\$670

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

<i>(in millions of Canadian dollars)</i>	Jun 2021	Dec 2020
Deferred insurance premiums	140	160
Allowance for claims on insurance	700	660
Total premium and claims liabilities	840	820
Reinsurers' share of allowance for claims on insurance	(120)	(120)
Prepaid reinsurance	(20)	(30)
Reinsurers' share of premium and claims liabilities	(140)	(150)
Net premium and claims liabilities	\$700	\$670

4. Contingent Liabilities

As explained on page 162 of the 2020 Annual Report, we are subject to a limit imposed by the Export Development Act on our contingent liability arrangements. The limit is currently \$90.0 billion and our position against this limit is \$32.7 billion as at June 30, 2021 (December 2020 - \$33.2 billion).

5. Share Capital

EDC's authorized share capital is \$15.0 billion consisting of 150 million shares with a par value of \$100 each. The number of shares issued and fully paid is 123.0 million (2020 – 13.3 million). In the first half of 2021, we declared and paid a dividend of \$580 million according to our current dividend policy, as well as a special dividend of \$6.7 billion based on the capital surplus position of the Business Credit Availability Program and a targeted Internal Capital Adequacy Assessment Process ratio, to the Government of Canada. No dividend was paid in the prior year.

6. Fair Value of Financial Instruments

Fair value represents our estimation of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For a full description of our controls, policies and valuation techniques surrounding fair value of financial instruments refer to Note 21 on page 169 of the 2020 Annual Report.

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

In the process of assessing the fair value for certain investment instruments, estimates determined in a manner consistent with industry practice are employed in the models which cannot be directly observed in the market. The methodologies and values derived from these models were relatively unchanged at the end of the second quarter of 2021 from what was disclosed in the 2020 Annual Report.

Fair Value Hierarchy

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

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

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

<i>(in millions of Canadian dollars)</i>	Jun 2021						Dec 2020				
	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value	
Assets											
Performing fixed rate loans	-	10,014	2,834	12,848	11,772	-	12,529	2,188	14,717	13,636	
Performing floating rate loans	-	33,922	967	34,889	34,032	-	36,768	1,359	38,127	37,746	
Total performing loans receivable	-	43,936	3,801	47,737	45,804	-	49,297	3,547	52,844	51,382	
Impaired loans	-	1,076	-	1,076	1,076	-	710	-	710	710	
Loans receivable and accrued interest and fees	-	45,012	3,801	48,813	46,880	-	50,007	3,547	53,554	52,092	
Marketable securities	4,884	5,703	-	10,587	10,587	4,922	5,641	-	10,563	10,563	
Derivative instruments	-	1,849	-	1,849	1,849	-	2,126	-	2,126	2,126	
Investments	155	-	2,224	2,379	2,379	128	-	1,904	2,032	2,032	
Other assets	170	12	28	210	211	219	15	28	262	260	
Liabilities											
Accounts payable and other credits	410	10	-	420	422	165	14	-	179	179	
Loans payable	-	46,719	-	46,719	46,660	-	45,118	-	45,118	45,020	
Derivative instruments	-	889	-	889	889	-	1,623	-	1,623	1,623	
Loan guarantees	-	164	-	164	199	-	264	-	264	300	

Changes in valuation methods may result in transfers into or out of Levels 1, 2 and 3. In the first six months of 2021, there were no transfers between levels as a result of changes in valuation methods.

The following table summarizes the reconciliation of Level 3 fair values between the beginning of the year and the end of the second quarter of 2021 for the financial instruments carried at fair value:

<i>(in millions of Canadian dollars)</i>	Jun 2021		
	Other Assets*	Investments	Total
Balance beginning of year	28	1,904	1,932
Unrealized gains (losses) included in other (income) expenses	-	267	267
Purchases of assets/issuances of liabilities	-	190	190
Return of capital	-	(93)	(93)
Transfer out of Level 3	-	(16)	(16)
Foreign exchange translation	-	(28)	(28)
Balance end of period	\$28	\$2,224	\$2,252
Total gains (losses) for the first six months of 2021 included in comprehensive income for instruments held at the end of the quarter	\$-	\$305	\$305

*Consists of recoverable insurance claims.

7. Financial Instrument Risks

The principal risks that we are exposed to as a result of holding financial instruments are credit, market and liquidity risk. For a full description of our objectives, policies and processes for managing financial instrument risk refer to management's discussion and analysis on pages 112 to 116 and notes related to our derivative instruments and debt instruments on pages 158 to 159 of the 2020 Annual Report.

Credit Risk

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

Concentration of Credit Risk

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

<i>(in millions of Canadian dollars)</i>	Jun 2021		Dec 2020	
	Exposure		Exposure	
Country	\$	%	\$	%
Canada	15,496	23	14,378	23
United States	14,449	21	17,143	19
United Kingdom	5,526	8	6,498	9
Chile	3,814	6	3,834	5
Australia	3,538	5	3,821	5
Other	25,599	37	28,174	39
Total	\$68,422	100	\$73,848	100

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

<i>(in millions of Canadian dollars)</i>	Jun 2021		Dec 2020	
	Exposure		Exposure	
Industry	\$	%	\$	%
Commercial:				
Aerospace	10,801	16	11,188	15
Infrastructure and environment	9,574	14	9,498	13
Financial institutions	8,504	12	9,083	12
Surface transportation	7,722	11	8,491	11
Mining	5,515	8	6,247	8
Oil and gas	5,460	8	6,389	9
Information and communication technologies	5,347	8	5,939	8
Other	6,780	10	7,402	11
Total commercial	59,703	87	64,237	87
Sovereign	8,719	13	9,611	13
Total	\$68,422	100	\$73,848	100

8. Net Insurance Premiums and Guarantee Fees

<i>(in millions of Canadian dollars)</i>	Three months ended					
	Jun 2021			Jun 2020		
	Gross premiums	Reinsurance	Net premiums	Gross premiums	Reinsurance	Net premiums
Credit insurance	36	(4)	32	27	(3)	24
Financial institutions insurance	2	-	2	4	-	4
International trade guarantee	27	(2)	25	24	(2)	22
Political risk insurance	2	(1)	1	5	(3)	2
Total	\$67	\$(7)	\$60	\$60	\$(8)	\$52

<i>(in millions of Canadian dollars)</i>	Six months ended					
	Jun 2021			Jun 2020		
	Gross premiums	Reinsurance	Net premiums	Gross premiums	Reinsurance	Net premiums
Credit insurance	68	(8)	60	56	(6)	50
Financial institutions insurance	4	-	4	6	-	6
International trade guarantee	59	(5)	54	49	(5)	44
Political risk insurance	6	(3)	3	10	(6)	4
Total	\$137	\$(16)	\$121	\$121	\$(17)	\$104

9. Claims-Related Expenses (Recovery)

<i>(in millions of Canadian dollars)</i>	Three months ended		Six months ended	
	Jun 2021	Jun 2020	Jun 2021	Jun 2020
	Claims paid	15	66	30
Claims recovered	(3)	(13)	(10)	(15)
Increase (decrease) in allowance for claims on insurance	(75)	203	59	202
Increase in the reinsurers' share in the allowance for claims	38	-	3	-
(Increase) decrease in recoverable insurance claims	-	(5)	-	(3)
Claims handling expenses	1	1	1	2
Total claims-related expenses (recovery)	\$(24)	\$252	\$83	\$272

10. Other (Income) Expenses

	Three months ended		Six months ended	
	Jun 2021	Jun 2020	Jun 2021	Jun 2020
<i>(in millions of Canadian dollars)</i>				
Net realized and unrealized (gain) loss on loans payable	(77)	99	(238)	553
Net realized and unrealized (gain) loss on derivatives	154	24	36	(189)
Net realized and unrealized (gain) loss on investments	(308)	143	(348)	159
Net realized and unrealized (gain) loss on marketable securities	(9)	4	82	(270)
Foreign exchange translation gain	(7)	(12)	(3)	(4)
Other	(1)	(9)	11	(19)
Total other (income) expenses	\$(248)	\$249	\$(460)	\$230

11. Administrative Expenses

	Three months ended		Six months ended	
	Jun 2021	Jun 2020	Jun 2021	Jun 2020
<i>(in millions of Canadian dollars)</i>				
Salaries and benefits	73	66	150	134
Pension, and other retirement and post-employment benefits	16	13	31	28
Professional services	17	16	28	22
Systems costs	13	12	26	22
Occupancy	7	7	14	13
Amortization and depreciation	6	8	13	17
Marketing and communications	7	4	11	9
Information services	5	6	10	10
Travel, hospitality and conferences	-	-	-	2
Other	4	-	7	1
Total administrative expenses	\$148	\$132	\$290	\$258

12. Related Party Transactions

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

EDC'S MANDATE

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.

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