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Export Development Canada | Exportation et développement Canada

CANADA ACCOUNT ANNUAL REPORT

FOR THE GOVERNMENT OF CANADA YEAR ENDED MARCH 31, 2023

Canada

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Overview

Under Section 23 of the *Export Development Act* ("the Act"), the Government of Canada (the "Government" or the "Crown") is able to authorize support for transactions which, on the basis of Export Development Canada's ("EDC" or the "Corporation") risk management practices, would not be supported by EDC. Such transactions are referred to as Canada Account transactions. The Government effectively assumes the associated financial risks for Canada Account transactions by providing all monies required for any transaction from the Consolidated Revenue Fund ("CRF"). Canada Account transactions can consist of transactions or classes of transactions that EDC has the power to enter into pursuant to subsection 10(1.1) of the Act.

During the year, EDC continued to administer the Canada Emergency Business Account ("CEBA") program. The CEBA program supported micro and small businesses in Canada with loans from $40 thousand to $60 thousand, which will be partially forgivable and interest free if the loans are repaid by January 18, 2024. As at March 31, 2023, $40.2 billion remains outstanding under this program (see Note 3 for more details). Disbursements under the CEBA program ended in December 2021.

Authority

Pursuant to Section 23 of the Act, the Minister of International Trade ("the Minister"), with the concurrence of the Minister of Finance, may authorize EDC to undertake certain financial and contingent liability transactions if the Minister is of the opinion that it is in the national interest for EDC to undertake such transaction ("Ministerial Authorization").

Section 24(1) of the Act limits the total (i) contingent liabilities (i.e., insurance policies, guarantees and other contingent liability arrangements), (ii) obligations to advance funds in respect of any outstanding arrangements that has the effect of extending credit or to pay money in respect of any outstanding arrangement, and (iii) outstanding principal amounts owed in respect of any arrangement that has the effect of extending credit under Section 23 of the Act (the "Statutory Limit"). At all times during the year ended March 31, 2023, the Statutory Limit was $115 billion. All monies required by the Corporation to discharge its obligations under Canada Account are paid to the Corporation by the Minister of Finance, out of the CRF. Such monies are accounted for separately and do not impinge on the Corporation's borrowing limits.

Eligibility

Canada Account transactions must meet EDC's mandate. Prior to March 25, 2020, EDC's mandate included supporting and developing, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities. On March 25, 2020, in response to the COVID-19 pandemic, the Act was amended to temporarily expand EDC's mandate to include supporting and developing, directly or indirectly, domestic business at the request of the Minister and the Minister of Finance.

In addition to falling within EDC's mandate, the eligibility considerations applied to transactions considered under Canada Account may include:

- EDC's customary transaction criteria (including Canadian benefits, financial and technical capability of the customer, technical and commercial viability of the project, creditworthiness of the borrower);
- The Government's general willingness to consider the country risk in question and the creditworthiness of borrowers; and
- National interest considerations such as:
  - economic benefits and costs to Canada, including the employment and revenues generated or sustained by the transaction;

- importance of the export market to Canada; and
- foreign policy implications, including Canada's bilateral relationship with the country in question.

Risk Management

EDC provides financial services that allow Canadian exporters and investors to manage the risks they face while doing business internationally. In doing so, EDC does assume risks and must prudently manage these risks to ensure its long-term financial viability. In some cases, one or more of these risks (including, but not limited to, country risk, credit risk, interest rate risk or the size of the transaction) is beyond the risk capacity of the Corporation but the Minister judges the transaction to be in the national interest of Canada. In those circumstances, the Government may assume the risks itself and authorize EDC to undertake the transaction on its behalf. For each transaction, the Government sets aside an allowance for potential losses in the fiscal framework. Allowances are adjusted annually by the Government for all financial exposures based on the risks associated with the transaction. In accordance with the Government's accounting policies, the value of loans and advances made under Canada Account are adjusted in its financial statements by an allowance for credit losses to approximate their net realizable value.

Management

Upon receipt of a Ministerial Authorization, EDC is responsible for coordinating and administering the transaction, which includes the execution of legal documents, the requesting and disbursement of funds, and management of the repayment flows. EDC is required to maintain separate accounts for all disbursements, receipts, and recoveries. All such receipts and recoveries are to be remitted to the Receiver General. However, under the Act, the Minister of Finance may authorize EDC to retain certain amounts from receipts and recoveries to meet expenses and overhead related to these transactions (see Note 5). The Minister, with the concurrence of the Minister of Finance, may also authorize EDC to take certain actions necessary or desirable for the management of assets and liabilities arising out of these Canada Account transactions.

EDC has entered into a Memorandum of Understanding with Global Affairs Canada, the department under the Minister which provides the mechanism whereby funding requests and remittances are made by EDC to the Government.

Disclosure

Information on current transactions is posted on EDC's website in accordance with the Corporation's Disclosure Policy.

Fiscal Year

All data contained in this report is presented on the basis of the Government's fiscal year which ends on March 31 and will therefore not directly compare to EDC's Annual Report, Corporate Plan and other corporate documents, which are prepared on a calendar-year basis.

Management's Discussion and Analysis

Highlights

The following are highlights of Canada Account activity during the fiscal year 2022-2023:

- Under the CEBA program, $40.2 billion remains outstanding as at March 31, 2023.

- At the end of 2021-2022, there were Ministerial Authorizations allowing for financing of up to $19.2 billion related to the Trans Mountain Pipeline ("TMP"), which included a term loan of up to $4.7 billion, a second term loan of up to $13.5 billion, and financing in the form of a loan and/or guarantee of up to $1 billion, all of which mature on August 29, 2025. During the year, the TMP loans were restructured to allow capitalization of interest, as well as a new Ministerial Authorization was signed allowing for loan guarantees of up to $11.5 billion on external financing. At March 31, 2023, the total Ministerial Authorizations related to the TMP loans totalled $19.2 billion, of which $17.0 billion had been disbursed, $1.6 billion had been repaid, and $0.7 billion of interest had been capitalized for a total outstanding amount of $16.1 billion. At March 31, 2023, the total Ministerial Authorizations related to the TMP loan guarantees totalled $11.5 billion, for which Canada Account had issued a loan guarantee of $11.5 billion covering a syndicated loan of $11 billion and any additional interest or fees.

Other highlights for the fiscal year 2022-2023 are:

- Net loss was $132 million compared to a net loss of $755 million for the prior year primarily due to lower forgiveness expense on the CEBA program since funding for the program has ended, offset by an increase in CEBA loan provision for credit losses due to assumption updates.

- Loan revenue increased by $209 million to $823 million mainly due to loan interest revenue related to the TMP.

- Remittances of principal, interest, premiums and fees, net of expenses, totalling $4,749 million were made to the Receiver General by EDC primarily due to amounts related to the CEBA program. Total amounts received from the CRF were $897 million primarily due to amounts related to the TMP.

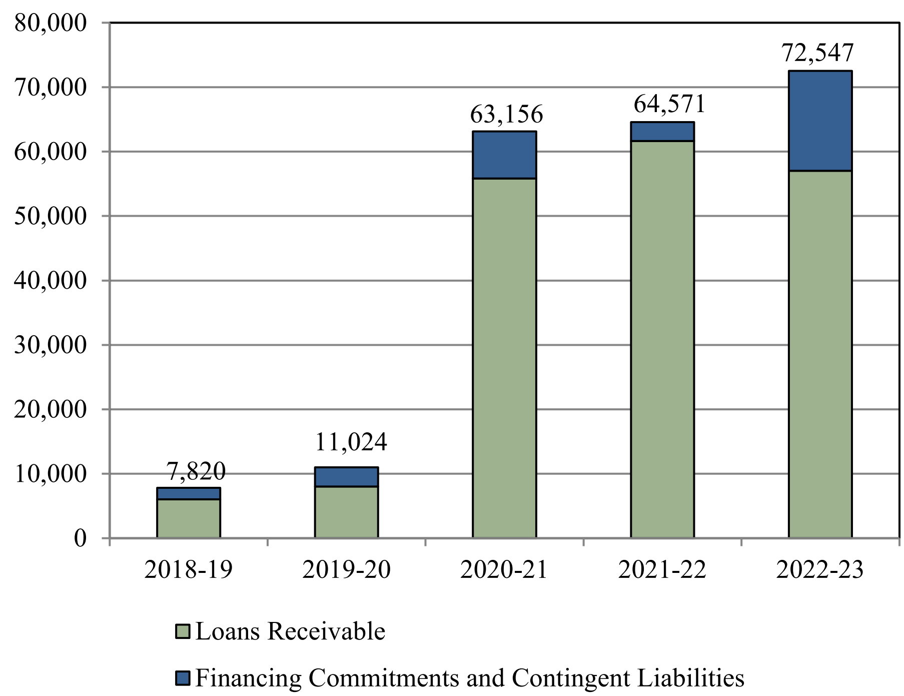
Position against Statutory Limit

As at March 31, 2023, the position against the Statutory Limit of $115 billion was $72.5 billion (March 31, 2022 - $64.6 billion). The increase in the position against the Statutory Limit is mainly due to a new loan guarantee related to the TMP, offset by a decrease in loans receivable with the CEBA program. Details of this position are as follows:

(in millions of Canadian dollars)	**Mar 2023**	Mar 2022
Loans Receivable		
Concessional - CEBA	**40,153**	44,666
Concessional	**466**	463
Non-concessional	**16,382**	16,524
	57,001	61,653
Financing Commitments and Contingent Liabilities		
Loan commitments	**4,046**	2,907
Loan guarantees	**11,500**	11
	15,546	2,918
Position Against Statutory Limit	**$72,547**	$64,571

Five-Year Summary

Position Against Canada Account Statutory Limit
Five-Year History ($ in millions)



Concentration of Exposure

The following table reflects the country exposure where the risk resided as at March 31, 2023:

(in millions of Canadian dollars)					**Mar 2023**		Mar 2022	
Country	**Concessional Loans Receivable**	**Non-Concessional Loans Receivable**	**Loan Commitments**	**Loan Guarantees**	**Total**	**%**	Total	%
Canada - CEBA	40,153	-	-	-	**40,153**	**55**	44,666	69
Canada	11	16,186	4,046	11,500	**31,743**	**44**	19,240	30
China	279	-	-	-	**279**	**1**	279	1
United States	-	75	-	-	**75**	**-**	74	-
Turkey	72	-	-	-	**72**	**-**	70	-
Iraq	-	58	-	-	**58**	**-**	64	-
Morocco	54	-	-	-	**54**	**-**	54	-
Argentina	-	35	-	-	**35**	**-**	33	-
India	32	-	-	-	**32**	**-**	31	-
Pakistan	-	13	-	-	**13**	**-**	16	-
Other *	18	15	-	-	**33**	**-**	44	-
Total	**$40,619**	**$16,382**	**$4,046**	**$11,500**	**$72,547**	**100**	$64,571	100

** Includes six countries with exposures ranging from $3 million to $13 million (2021-22 seven countries with exposures ranging from $2 million to $12 million).*

Exposure by Currency

(in millions of Canadian dollars)				**Mar 2023**				Mar 2022
Currency	**Amount**	**CAD Equiv.**	**Exchange Rate**	**%**	Amount	CAD Equiv.	Exchange Rate	%
CAD	**71,917**	**71,917**	**-**	**99**	63,939	63,939	-	99
USD	**466**	**630**	**1.3516**	**1**	506	632	1.2502	1
Total		**$72,547**		**100**		$64,571		100

The overall CAD exposure increased in the year primarily due to a loan guarantee related to the TMP, offset by a decrease in loans receivable for the CEBA program.

Commercial and Sovereign Exposure

(in millions of Canadian dollars)			**Mar 2023**			Mar 2022
	Commercial	**Sovereign**	**Total**	Commercial	Sovereign	Total
Loans Receivable						
Concessional - CEBA	**40,153**	**-**	**40,153**	44,666	-	44,666
Concessional	**11**	**455**	**466**	11	452	463
Non-concessional	**130**	**16,252**	**16,382**	127	16,397	16,524
	40,294	**16,707**	**57,001**	44,804	16,849	61,653
Financing Commitments and Contingent Liabilities						
Loan commitments	**1,007**	**3,039**	**4,046**	7	2,900	2,907
Loan guarantees	**-**	**11,500**	**11,500**	-	11	11
	1,007	**14,539**	**15,546**	7	2,911	2,918
Total	**$41,301**	**$31,246**	**$72,547**	$44,811	$19,760	$64,571
Percentage	**57%**	**43%**	**100%**	69%	31%	100%

The increase in sovereign exposure was primarily due to a loan guarantee issued during the year related to the TMP.

The following chart provides an additional breakdown of the commercial and sovereign exposure by industry and country:

(in millions of Canadian dollars)		**Mar 2023**		Mar 2022
	Total	**%**	Total	%
Commercial (by industry):				
CEBA	**40,153**	**55**	44,666	69
Utilities	**1,000**	**2**	-	-
Transportation and storage	**75**	**-**	74	-
Resources	**38**	**-**	38	- -
Other	**35**	**-**	33	-
	41,301	**57**	44,811	69
Sovereign (by country):				
Canada	**30,670**	**42**	19,170	31
China	**279**	**1**	279	-
Turkey	**72**	**-**	70	-
Iraq	**58**	**-**	64	-
Morocco	**54**	**-**	54	-
Argentina	**35**	**-**	33	-
Other	**78**	**-**	90	-
	31,246	**43**	19,760	31
Total	**$72,547**	**100**	$64,571	100

The increase in Sovereign Canada exposure is due to a loan guarantee issued during the year related to the TMP.

Loan Receivable by Interest Type

(in millions of Canadian dollars)			**Mar 2023**			Mar 2022
	Fixed	**Floating**	**Total**	Fixed	Floating	Total
Concessional - CEBA	**40,153**	**-**	**40,153**	44,666	-	44,666
Concessional	**466**	**-**	**466**	457	6	463
Non-concessional	**16,247**	**135**	**16,382**	16,383	141	16,524
Total	**56,866**	**135**	**57,001**	61,506	147	61,653
Percentage	**100%**	**0%**	**100%**	100%	0%	100%

Cash Flow Realized on Loans

The following table provides a summary of the interest and fees received on Canada Account loans. These cash flows were remitted to the Receiver General during the fiscal year net of the administration charge.

(in millions of Canadian dollars)			**Mar 2023**			Mar 2022
	Average annual principal balance	**Interest cash flow**	**%**	Average annual principal balance	Interest cash flow	%
Concessional	**42,968**	**-**	**0.00%**	37,251	-	0.00%
Non-concessional	**16,188**	**6**	**0.04%**	22,807	547	2.40%
Total	**$59,156**	**$6**	**0.01%**	$60,058	$547	0.91%

The decrease in the interest cash flow was due to the restructuring of the loans related to the TMP, which resulted in capitalization of interest.

Financial Arrangements Facilitated

In the fiscal year-ended March 31, 2023, Canada Account did not facilitate any disbursements to the CEBA program (2021-22 $3.8 billion), as funding for the CEBA program ended in December 2021.

During the year, a new Ministerial Authorization was signed allowing for loan guarantees related to the TMP of up to $11.5 billion. At year end, Canada Account had total loan guarantee contingent liability of $9.6 billion related to the TMP.

Canada Account Financial Statements

Statement of Receivables

as at *(in millions of Canadian dollars)*	**Mar 2023**	Mar 2022
CEBA loans receivable (Note 3)	**40,153**	44,666
CEBA allowance for transfer payments (Note 3)	**(12,870)**	(13,778)
Net CEBA receivable	**27,283**	**30,888**
Loans receivable (Note 4)	**16,848**	16,987
Allowance for credit losses on loans	**(2,725)**	(2,471)
Allowance for losses on accrued interest and fees	**(340)**	(247)
Unamortized discount on concessionary loans	**(297)**	(320)
Accrued interest and fees	**517**	429
Total	**41,286**	45,266

Statement of Financing Commitments and Contingent Liabilities

as at *(in millions of Canadian dollars)*	**Mar 2023**	Mar 2022
Loan commitments	**4,046**	2,907
Loan guarantees (Note 7)	**11,500**	11
Total	**$15,546**	$2,918

Statement of Revenue and Expenses

for the year ended *(in millions of Canadian dollars)*	**Mar 2023**	Mar 2022
Revenue		
Loan interest and guarantee fees	**823**	614
Gain on foreign currency translation	**69**	2
Amortization of discount	**23**	23
Total Revenue	**915**	639
Expenses		
CEBA transfer payment expense (Note 3)	**441**	1,515
CEBA loan provision for credit losses (Note 3)	**289**	(364)
CEBA financial institution fees (Note 3)	**175**	182
CEBA administrative charges (Note 3 and 5)	**77**	56
Provision for credit losses on loans and loan guarantees	**64**	4
Administrative charges (Note 5)	**1**	1
Total Expenses	**1,047**	1,394
Net Income (Loss)	**$(132)**	$(755)

Statement of Cash Flow (to)/from the Consolidated Revenue Fund

for the year ended *(in millions of Canadian dollars)*	**Mar 2023**	Mar 2022
Remittances to the Receiver General by EDC		
Principal	**(4,821)**	(3,292)
Interest, premiums and fees	**(6)**	(547)
Administrative charges	**78**	57
Total remitted to the Receiver General	**(4,749)**	(3,782)
Received from CRF by EDC		
Principal	**722**	10,069
CEBA financial institution fees (Note 3)	**175**	182
Total received from CRF	**897**	10,251
Net cash received from (remitted to) the CRF/Receiver General (as applicable)	**(3,852)**	$6,469

Note: All funds received by EDC in respect of Canada Account transactions (loan repayments, interest payments, fees, premium payments, etc.) are remitted by EDC to the Receiver General net of the expenses and overhead of the Corporation arising out of those transactions.

Notes to the Financial Statements

Note 1. Mandate and Authority

EDC is established for the purposes of (i) supporting and developing, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities and (ii) providing, directly or indirectly, development financing and other forms of development support in a manner that is consistent with Canada's international development priorities. In March of 2020, EDC's mandate was temporarily expanded to include supporting and developing, directly or indirectly, domestic business at the request of the Minister and the Minister of Finance. Pursuant to Section 23 of the Act, the Minister, with the concurrence of the Minister of Finance, may authorize the Corporation to undertake certain transactions that are considered to be in the national interest by the Minister. These transactions or classes of transactions and the legislative authorities that underlie them have come to be known collectively as the "Canada Account". Such transactions can include business in all of EDC's product categories. The Corporation is responsible for ensuring that Canada Account transactions are administered appropriately. Accounts for these transactions are maintained separately from the Corporation's accounts and are consolidated annually as at March 31 with the financial statements of the Government, which are reported upon separately by the Government and audited by the Auditor General of Canada.

Section 24(1) of the Export Development Act allows Canada Account to have up to an aggregate of $115 billion (the "Statutory Limit") in: (i) contingent liabilities (i.e., insurance policies, guarantees and other contingent arrangements), (ii) obligations to advance funds in respect of any outstanding arrangements that has the effect of extending credit or to pay money in respect of any outstanding arrangement, and (iii) outstanding principal amounts owed to EDC in respect of any arrangement that has the effect of extending credit under Section 23 of the Act. The position against this limit, determined in accordance with the requirements of the Act, was $72,547 million at March 31, 2023 (March 31, 2022 - $64,571 million).

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

The balances presented in the Canada Account financial statements are recorded in accordance with Public Sector Accounting Standards.

Consolidated information presented in the *Public Accounts of Canada* is prepared in accordance with criteria outlined in the Receiver General Manual (Public Accounts of Canada Instructions).

Loans Receivable

Loans receivable are carried at historical cost and include capitalized interest and fees.

Accrued interest is recorded on the contractual basis of the underlying loan. It includes accrued interest and fee revenue on all loans, including loans in default and/or those where there is no expectation of collectability.

Loan interest income is recorded on an accrual basis for the purposes of presentation in the Statement of Revenue and Expenses. It includes accrued interest and fee revenue on all loans, with the exception of loans in default where collectability is not reasonably assured.

Allowances for Transfer Payments and Credit Losses

When necessary, allowances are recorded to reduce the carrying value of loans to amounts that approximate their net recoverable value. The allowance for transfer payments represents discounts to reflect the concessionary terms of forgiveness clauses in the CEBA program.

The allowance for credit losses reflects the possibility of losses associated with potential default. The determination of the allowance considers the credit risk of borrowers, collateral provided as well as previous repayment history. When they are determined to be uncollectible, the loans are written off.

Translation of Foreign Currency

All loans receivable, loan commitments, contingent liabilities and claims paid and outstanding denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the end of the reporting period. Income and expenses are translated at either daily or monthly average exchange rates in effect during the year. Exchange gains and losses resulting from the translation of foreign currency balances and transactions are recognized in the income statement during the fiscal year.

Measurement Uncertainty

Loans receivable are subject to measurement uncertainty due to the use of estimates relating to the allowances for credit losses that reflects the possibility of losses associated with potential defaults, as well as allowances for determining the discounts related to concessionary terms of forgiveness clauses in the CEBA program.

The estimate of the allowance for credit losses and the allowance for transfer payments is reviewed annually and refined in light of several factors, including historical loan loss rates, expert judgment, management assumptions, and applicable model-based approaches that consider current economic conditions. The allowance for transfer payments is reviewed annually and refined in light of several factors including the CEBA program terms established by the Government, historical repayments, expert judgment and management assumptions.

The ongoing economic uncertainties heighten the measurement uncertainty related to the allowances for CEBA loans. In particular, given the unique nature of the pandemic, as well as the CEBA program itself, there is limited historical experience to assess the expected recoveries of CEBA loans receivable which may lead to a material variance in the valuation of the CEBA loans receivable. The full potential impact on the assumptions such as credit quality and probability of default used to measure the allowance for credit losses is unknown as it will depend on future developments that are uncertain.

Note 3. Canada Emergency Business Account ("CEBA")

Under CEBA in its initial form, loans of $40 thousand were made available to qualifying businesses at 0% interest and repayable by December 31, 2022, subject to a one-time extension of three years and 5% interest per annum commencing on January 1, 2023. Up to 25% ($10 thousand) of the loan could be forgiven only if the borrower repaid their obligation by December 31, 2022. On December 4, 2020, the program was modified to allow eligible applicants to receive a $60 thousand CEBA loan. Eligible CEBA applicants who had received the $40 thousand CEBA loan were able to apply for the CEBA expansion, which provided eligible businesses with an additional $20 thousand CEBA loan. In both cases, these loans were at 0% interest, repayable by December 31, 2022 and subject to a one-time extension of three years and 5% interest per annum commencing on January 1, 2023. Up to 33% of the $60 thousand CEBA loan (25% of the first $40 thousand, plus 50% on amounts above $40 thousand) could be forgiven if the borrower repaid their obligation by December 31, 2022. On January 12, 2022, the Government of Canada announced that the repayment deadline for CEBA loans to qualify for partial loan forgiveness was extended to December 31, 2023 for all eligible CEBA loan holders in good standing. This repayment deadline was again extended on September 14, 2023 to January 18, 2024. Additionally, CEBA loan holders that submit a refinancing loan application to the financial institution that provided their CEBA loan by January 18, 2024 but require a grace period in order to finalize the payout of their CEBA loan can still qualify for partial loan forgiveness if the outstanding principal of their CEBA loan, other than the amount of potential debt forgiveness, plus any applicable interest is repaid by March 28, 2024. Any loans in good standing with amounts outstanding at January 18, 2024 will be subject to a one-time extension up to December 31, 2025 and 5% interest per annum commencing on January 19, 2024. At March 31, 2023, $40.2 billion remains outstanding under the program.

CEBA allowance for transfer payments represents management's best estimate of the principal to be forgiven under the terms of the CEBA program. The assumptions include estimates of the obligors expected to take advantage of the forgiveness component of the loans and are based on management judgement. The assumptions used to develop the estimates are reviewed annually and refined if necessary. At March 31, 2023, the allowance for transfer payments was $12.9 billion.

Changes in the CEBA allowance for transfer payment as a result of disbursements, repayments and maturities, forgiveness, and changes in assumptions used to develop the estimates are recorded in the CEBA transfer payments expense on the statement of revenue and expenses.

CEBA financial institution fees of $175 million are amounts paid to the financial institutions who are delivering the CEBA program. These financial institutions have the direct relationship with the CEBA borrowers and are responsible for establishing and administering CEBA loans with their customers in accordance with the CEBA program parameters.

CEBA administrative charges of $77 million are direct costs incurred by EDC for the administration of the CEBA program. The direct costs are primarily related to third parties participating in the delivery of the CEBA program.

Note 4. Loans Receivable

(in millions of Canadian dollars)			**Mar 2023**			Mar 2022
Fiscal	**Concessional**	**Non-Concessional**	**Total**	Concessional	Non-Concessional	Total
Past Due	**-**	**50**	**50**	-	47	47
2022/23	**-**	**-**	**-**	30	20	50
2023/24	**40,187**	**27**	**40,214**	44,697	26	44,723
2024/25	**33**	**29**	**62**	31	27	58
2025/26	**33**	**16,202**	**16,235**	31	16,336	16,367
2026/27	**34**	**14**	**48**	31	13	44
2027/28	**33**	**15**	**48**	31	14	45
2028/29	**33**	**3**	**36**	31	3	34
2029/30	**33**	**3**	**36**	31	3	34
2030/31 and beyond	**233**	**39**	**272**	216	35	251
Total	**$40,619**	**$16,382**	**$57,001**	$45,129	$16,524	$61,653

The following table provides a breakdown of principal, interest and fees in arrears at the end of the fiscal year.

(in millions of Canadian dollars)		**Mar 2023**		Mar 2022
	Sovereign	**Total**	Sovereign	Total
Past due principal	**50**	**50**	47	47
Past due interest and fees	**291**	**291**	245	245
Total	**$341**	**$341**	$292	$292

Note 5. Recovery of Amounts Previously Expensed and Administrative Charges

Pursuant to Section 23(5) of the Act, the Corporation is authorized by the Minister of Finance to retain from any receipts and recoveries an amount, as the Minister of Finance considers to be required, to meet the general, legal, and overhead expenses of the Corporation arising out of Canada Account transactions.

The following table provides a summary of the fees charged for the last five years:

(in millions of Canadian dollars)

	2022/23	2021/22	2020/21	2019/20	2018/19
CEBA	**77**	56	56	-	-
Other Canada Account	**1**	1	1	9	7
Total	**78**	57	57	9	7

Note 6. Financing Commitments

Financing commitments consist of loan commitments which are immediately available to the obligor for drawdown subject to adherence to contractual covenants established under the financing agreements.

Note 7. Canada Account Guarantees

Loan guarantees are issued to cover non-payment of principal, interest and fees due to banks and financial institutions providing loans to borrowers. Calls on guarantees result in the recognition of a loan asset on the balance sheet and become a direct obligation of the borrower.

On April 25, 2022, the Trans Mountain Corporation ("TMC"), a wholly owned subsidiary of the Canada Development Investment Corporation, changed its status to a non-agent Crown corporation to allow for borrowings from parties other than the Government of Canada. On April 29, 2022, TMC entered into a one-year senior unsecured revolving facility for $10 billion with a syndicate of lenders (Syndicated Facility). The Canada Account issued a loan guarantee to TMC on its Syndicated Facility, which matures August 31, 2025, with a total authorized limit of $10 billion. On March 24, 2023, TMC's Syndicated Facility was amended, and the loan guarantee was revised accordingly to $11.5 billion. Prior to the amendment, the guarantee fee was 5% per annum less the daily weighted average interest rate per annum payable by TMC in accordance with the Syndicated Facility. The amended guarantee fee is accrued at a fixed rate based on the outstanding balance under the Syndicated Credit Agreement. At March 31, 2023, the outstanding principal on TMC's Syndicated Facility was $9.6 billion.

Note 8. Financial Instruments and Risk Management

Canada Account is exposed to a variety of financial risks, including market risk and credit risk. These risks are taken on intentionally since the Minister judges the transaction to be in the national interest of Canada.

Market Risk

Market risk is the risk of loss or harm due to adverse movements in market prices, interest rates and/or foreign exchange rates. Canada Account is exposed to potential negative impacts on the value of financial instruments resulting from adverse movements in interest and foreign exchange rates.

Interest Rate Risk

The interest rate on Canada Account's loans receivable are primarily fixed or in some cases variable with some having limited correlation to the Government of Canada borrowing rate at a future date. See the Loan Receivable by Interest Type table in the Management Discussion & Analysis of this annual report for a breakdown of Canada Account's loans receivable by interest type.

Foreign exchange risk

Foreign exchange risk is the risk of loss or harm due to volatility of currency exchange rates. The currency of loans receivable are primarily in Canadian dollars; however, there are some loans denominated in U.S. Dollars and therefore Canada Account is exposed to foreign exchange risk. See the Exposure by Currency table in the Management Discussion & Analysis section of this annual report for a breakdown of loans receivable by currency.

Credit Risk

Credit risk is the risk of loss incurred if a counterparty fails to meet its financial commitments. Credit risk may arise from lending and guarantee exposures, and concentration or portfolio composition. For each transaction, the Government sets aside an allowance for potential losses in the fiscal framework. Allowances are adjusted annually by the Government for all financial exposures based on the risks associated with the transaction. In accordance with the Government's accounting policies, the value of loans and advances made under Canada Account are adjusted in its financial statements by an allowance for credit losses to approximate their net realizable value.

See the following table for a breakdown of Canada Account's exposure by credit grade:

(in millions of Canadian dollars)				**Mar 2023**				Mar 2022
	Commercial	**Sovereign**	**Total**	**%**	Commercial	Sovereign	Total	%
Gross Loans Receivable								
Investment grade	**-**	**16,410**	**16,410**	**29**	-	16,549	16,549	27
Non-investment grade	**40,199**	**282**	**40,481**	**71**	44,729	286	45,015	73
Impaired	**95**	**15**	**110**	**-**	75	14	89	-
Total gross loans receivable	**40,294**	**16,707**	**57,001**	**100**	44,804	16,849	61,653	100
Loan commitments								
Investment grade	**-**	**3,039**	**3,039**	**75**	-	2,900	2,900	100
Non-investment grade	**1,007**	**-**	**1,007**	**25**	7	-	7	-
Total loan commitments	**1,007**	**3,039**	**4,046**	**100**	7	2,900	2,907	100
Loan guarantees								
Investment grade	**-**	**11,500**	**11,500**	**100**	-	11	11	100
Total loan guarantees	**-**	**11,500**	**11,500**	**100**	-	11	11	100

**Investment grade exposure represents obligors with credit ratings of BBB- and above. Non-investment grade exposure represents obligors with credit ratings below BBB-.*

Glossary of Financial Terms

Accrued Interest - Interest earned but not yet received under a loan or other interest-bearing instrument calculated from the later of the disbursement date or the date of the last interest payment.

Administrative Charges - Direct costs incurred by EDC for the administration of all Canada Account transactions, excluding costs related to the CEBA program.

Allowance for Credit Losses - Represents management's best estimate of probable credit losses. These estimates are reviewed periodically during the year and in detail as at the date of the financial statements.

CEBA - Canada Emergency Business Account.

CEBA Administrative Charges - Direct costs incurred by EDC for the administration of all Canada Account transactions related to the CEBA program.

CEBA Allowance for Credit Losses - Represents management's best estimate of probable credit losses under the CEBA program. These estimates are reviewed periodically during the year and in detail as at the date of the financial statements.

CEBA Allowance for Transfer Payments - Represents management's best estimate of the principal to be forgiven under the terms of the CEBA program.

CEBA Financial Institution Fees - Fees paid to the financial institutions who are participating in the CEBA program.

Concessional Loans - Loans which are interest free or at below-market interest rates and/or have extended repayment terms.

Contingent Liability - Potential debt which arises from past events and may become an actual obligation if certain events occur or fail to occur. Contingent liability is also referred to as insurance policies and guarantees outstanding.

Financing - An arrangement that has the effect of extending credit or providing an undertaking to pay money.

Forgiveness - Amounts forgiven under the terms of the CEBA program.

Loan Guarantee - An undertaking that the payment of a debt obligation shall be duly met. A guarantee is a contingent liability for the guarantor.

Loan Commitments - The portion of a loan that has been offered and accepted but not yet disbursed.

Public Accounts of Canada - The report of the Government, prepared each fiscal year by the Receiver General in which the transactions of all departments and agencies are summarized.

Sovereign Exposure - Loans for which the financial and repayment risk is that of a sovereign government.