

# Canada Account

ANNUAL REPORT 2010-2011



Canada

 EDC



**CANADA ACCOUNT ANNUAL REPORT**  
***FOR THE GOVERNMENT OF CANADA YEAR ENDING***  
***MARCH 31, 2011***

Canada 

## Table of Contents

<b>Overview</b>	<b>1</b>
<b>Authority</b>	<b>1</b>
<b>Risk Management</b>	<b>1</b>
<b>Management</b>	<b>2</b>
<b>Eligibility</b>	<b>2</b>
<b>Policy on Concessional Finance</b>	<b>3</b>
<b>Disclosure</b>	<b>3</b>
<b>Fiscal Year</b>	<b>3</b>
<b>Management's Discussion and Analysis</b>	<b>4</b>
<b>Canada Account Financial Statements</b>	<b>11</b>
<b>Notes to the Financial Statements</b>	<b>13</b>
<b>Glossary</b>	<b>17</b>

## Overview

Under Canada Account, 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 under EDC’s Corporate Account but are in the national interest. Canada Account transactions are assessed, entered into and managed by EDC, and the Government effectively assumes the associated financial risks by providing all monies required for any transaction from the Consolidated Revenue Fund (“CRF”). Canada Account consists of transactions or classes of transactions undertaken by EDC pursuant to Section 23 of the *Export Development Act* (“the Act”). Such transactions can include business in all of EDC’s product categories (financing, accounts receivable insurance, contract insurance and bonding, and political risk insurance) except equity. Such transactions cannot include any business that cannot be undertaken by EDC pursuant to Section 10 of the Act. Interest and fees on loans (which are fully repayable), insurance premiums and fees, as the case may be, also apply to Canada Account transactions.

## 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. Transactions exceeding \$50 million or those of a sensitive nature are first referred to Cabinet for approval-in-principle.

Section 24(1) of the Act allows Canada Account to have outstanding commitments to borrowers, the principal amount of obligations owed to the Corporation and contingent liabilities under contracts of insurance and other arrangements up to an aggregate of \$20 billion. (See Management’s Discussion and Analysis, Position against Statutory Limit). 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.

In 2010, the Government of Canada amended Section 23 of the Act to clarify EDC’s authority to undertake debt restructurings on behalf of the Government for Canada Account transactions, in the same manner that it operates its Corporate Account.

## 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 a transaction where one or more of these risks (including country risk, credit risk, interest rate risk or the size of the transaction) are considered beyond the risk capacity of the Corporation and inconsistent with ensuring its long-term financial viability, the Government may authorize EDC to undertake the transaction and effectively assume those risks itself provided that the transaction is in the national interest of Canada. In considering its authorization, the Government relies on EDC’s risk assessment of the transaction. 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 (country, credit rating, value of collateral, etc.). In accordance with the Government's accounting policies, the value of loans, investments and advances made under Canada Account are adjusted in its financial statements by means of a valuation allowance to approximate their net realizable value.

## Management

The Corporation is responsible for the assessment, negotiation, documentation, management and administration of Canada Account transactions.

At the initial stages of a transaction that is eligible for Canada Account support, EDC seeks Ministers' approval-in-principle. Such approval allows the Corporation to indicate possible support to a company conditional on final approval of the Government. In the late stage, when the funding and the parameters of a transaction have been established, EDC seeks Ministerial Authorization to make a firm offer and/or to enter into an agreement.

Upon receipt of a Ministerial Authorization for a transaction, EDC is responsible for coordinating and administering transactions, 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 CRF. 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 6). 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 transactions.

EDC has entered into a Memorandum of Understanding with the Department of Foreign Affairs and International Trade which provides the mechanism whereby funding requests are made by EDC to the Government and remittances are made by EDC to the Government.

## Eligibility

Canada Account transactions must meet EDC's mandate to support and develop, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities. Under Canada Account, the Government of Canada is able to support transactions that exceed the financial or risk capacity of EDC under its Corporate Account, but are deemed to be in the national interest.

The *Budget Implementation Act*, 2009, provided EDC with a two year temporary expansion of its mandate to include the support and development of domestic trade and the capacity to respond to domestic business opportunities. The Government of Canada extended EDC's temporary mandate for an additional year until March 12, 2012. Transactions related to this expanded mandate may also be considered under Canada Account.

In most cases, a transaction will first be considered and rejected by EDC under its Corporate Account prior to it being referred to the Minister of International Trade for consideration under Canada Account. However, the Government may request that EDC

manage a transaction under Canada Account as was the case for the support provided to the automotive sector in 2009.

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

- EDC's customary lending or insurance criteria (Canadian benefits, financial and technical capability of the exporter, 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.

Canada Account services are provided on a user-pay basis. Exporters pay premiums for insurance coverage and there are fees associated with Canada Account financing and guarantees. Loans are extended on terms that are fully repayable with interest, with some exceptions relating to concessional financing.

## **Policy on Concessional Finance**

It is the policy of the Government that concessional financing (interest-free or low-interest rates and/or extended repayment-term financing), which in the past has been provided under Canada Account to match such financing available from other countries, is no longer to be provided. Nevertheless, Canada retains the right to offer matching terms within the parameters agreed upon in the Organisation for Economic Co-operation and Development (OECD) "Arrangement on Guidelines for Officially Supported Export Credits", to ensure, where appropriate, that Canadian companies are not competitively disadvantaged by offers of such terms by other countries.

## **Disclosure**

Information on current transactions is posted on EDC's website ([www.edc.ca/disclosure](http://www.edc.ca/disclosure)) 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 2010/2011:

- There were no Ministerial Authorizations for new transactions this year, compared to thirteen Ministerial Authorizations in the previous year.
- In the context of *Canada's Economic Action Plan*, the governments of Canada and Ontario supported the restructuring and renewal of the automotive industry in 2009-2010. One third of this support was provided by Ontario and two thirds by Canada, via the Canada Account. In 2010-2011, General Motors prepaid \$1.5 billion of its loan from Canada and Ontario and the debtor-in-possession financing, which was transferred to Motors Liquidation Corp, remains outstanding. Subsequent to the end of the current fiscal year, Chrysler Canada fully repaid its \$1.7 billion loan, including interest and fees, however the amount disbursed to Old Carco remains outstanding.
- In July 2009, Canada Account provided \$100 million towards a \$600 million credit facility for Air Canada involving four other lenders. The loan was provided on commercial terms and at market rates consistent with the risk profile of the transaction. The loan was prepaid on August 3, 2010.
- Remittances in principal, interest, lease revenue, claims recovered and fees, net of expenses, totaling \$1.6 billion were made to the CRF by EDC.
- Canada Account year-end exposure decreased by \$1.4 billion from 2009-2010 mainly due to principal repayments of \$1.4 billion which included a \$1.1 billion principal prepayment from General Motors of Canada and a \$100 million prepayment by Air Canada. A further decrease of \$400 million in contingent liability and foreign exchange translation loss was offset by an increase of \$400 million in net loan disbursements and repayments. The majority of this amount consisted of the one-third repayment back to the Ontario Government received from the General Motors of Canada prepayment of \$1.1 billion.

## Position against Statutory Limit

Section 24 of the Act allows Canada Account to have outstanding loan commitments to borrowers, principal amount of obligations owed to the Corporation and contingent liabilities under contracts of insurance and other arrangements up to an aggregate of \$20 billion. The position against this limit at March 31, 2011 was \$5,369 million (March 2010 - \$6,835 million). Details of this position are as follows:

<i>(in millions of Canadian dollars)</i>	<b>March 31, 2011</b>	March 31, 2010
<b>Loans Receivable</b>		
Concessional	<b>660</b>	720
Non-concessional	<b>3,798</b>	4,935
	<b>4,458</b>	5,655
<b>Loan Commitments</b>		
Concessional	<b>1</b>	1
Non-concessional*	<b>504</b>	539
	<b>505</b>	540
<b>Contingent Liabilities, Notes Receivable and Claims</b>		
Loan guarantees	<b>281</b>	375
Notes receivable	<b>102</b>	104
Credit insurance	<b>10</b>	148
Paid and outstanding claims	<b>13</b>	13
	<b>406</b>	640
<b>Position Against Statutory Limit**</b>	<b>\$5,369</b>	\$6,835

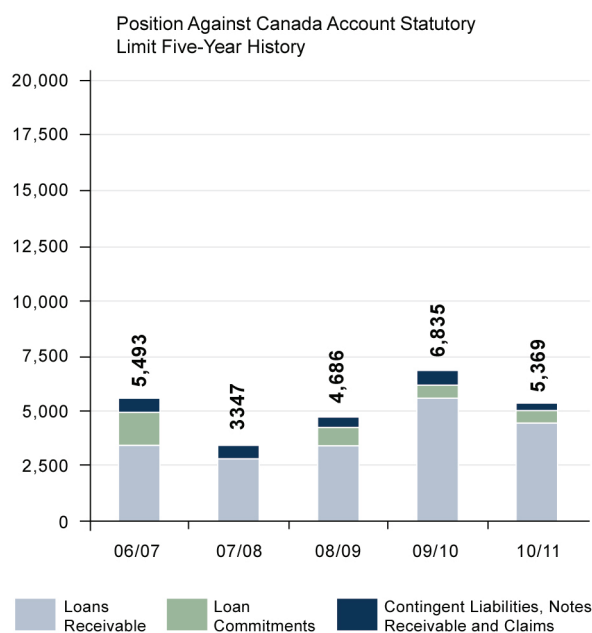
\*Includes an undisbursed commitment in place with Chrysler Canada which was subsequently cancelled in May 2011.

\*\*One Ministerial Authorization has been received. In accordance with the Act, transactions related to a Ministerial Authorization will count against the statutory limit once binding commitments are in place and have been accepted.



## Five-Year Summary

From 2006/2007 to 2007/2008, the position against the statutory limit was on a downward trend reflecting normal repayments, minimal disbursements and the cancellation of a loan commitment that was no longer required under the related commercial contract. In 2008/2009 and 2009/2010, the position increased primarily due to large commitments in support of the restructuring and renewal of the Canadian automotive industry. In the fiscal year 2010/2011, a principal prepayment of \$1.1 billion was made by General Motors of Canada which reduced the amount owing on an outstanding loan to both the Governments of Canada and Ontario to nil. In addition, Air Canada prepaid a \$100 million loan during this period.



## Concentration of Exposure

The following table reflects the major concentrations of commercial and sovereign exposures in the country where the risk resided at March 31, 2011.

(in millions of Canadian dollars)

Country	Concessional		Non-Concessional			Contingent Liabilities & Claims			Paid & outstanding claims	Total exposure	%
	Loans receivable	Loan commitments	Loans receivable	Loan commitments	Notes receivable	Loan guarantees	Credit Insurance				
United States	-	-	2,174	-	49	30	2	-	2,255	42	
Canada	-	-	1,069	481	53	-	-	-	1,603	30	
China	399	1	-	-	-	-	-	-	400	7	
Romania	-	-	-	-	-	251	-	-	251	5	
Norway	-	-	194	-	-	-	-	-	194	4	
Sweden	-	-	131	-	-	-	-	-	131	2	
Cyprus	-	-	73	23	-	-	-	-	96	2	
Turkey	83	-	-	-	-	-	-	-	83	1	
Other *	178	-	157	-	-	-	8	13	356	7	
<b>Total</b>	<b>\$660</b>	<b>\$1</b>	<b>\$3,798</b>	<b>\$504</b>	<b>\$102</b>	<b>\$281</b>	<b>\$10</b>	<b>\$13</b>	<b>\$5,369</b>	<b>100</b>	

\* Includes 22 countries with exposures ranging from \$0.3 million to \$79 million.

## Exposure by Currency

The following table provides a breakdown of the Canada Account exposure by currency at March 31, 2011. The U.S. dollar portion accounts for 64% of the exposure (2009/2010 - 57%). A \$1.1 billion CAD automotive loan prepayment decreased the proportion of CAD exposure to the total exposure thereby increasing the U.S. portion. Of the \$3,525 million of U.S. dollar exposure, \$3,438 million (98%) consists of loans receivable and loan commitments.

<i>(in millions of Canadian dollars)</i>			March 31, 2011			March 31, 2010		
Currency	Amount	CAD Equiv.	Exchange Rate	Percentage	Amount	CAD Equiv.	Exchange Rate	Percentage
USD	3,525	3,419	0.9698	63.7%	3,831	3,891	1.0156	56.9%
CAD	1,935	1,935	-	36.0%	2,929	2,929	-	42.9%
EUR	11	15	1.3745	0.3%	11	15	1.3737	0.2%
Total		\$5,369		100.0%		\$6,835		100.0%

## Commercial and Sovereign Exposure

The following table provides a commercial and sovereign breakdown of the Canada Account exposure. The commercial concentration decreased from 83% of the overall portfolio in 2009/2010 to 80% in 2010/2011. This decrease was primarily due to a large commercial prepayment by General Motors of Canada. The decrease in the sovereign exposure was due to the impact of foreign exchange translation and regularly scheduled repayments.

<i>(in millions of Canadian dollars)</i>			March 31, 2011			March 31, 2010		
	Commercial	Sovereign	Total	Commercial	Sovereign	Total		
Loans Receivable:								
Concessional	15	645	660	16	704	720		
Non-concessional	3,652	146	3,798	4,777	158	4,935		
Subtotal:	3,667	791	4,458	4,793	862	5,655		
Loan Commitments:								
Concessional	-	1	1	-	1	1		
Non-concessional	504	-	504	539	-	539		
Subtotal:	504	1	505	539	1	540		
Contingent Liabilities & Claims:								
Loan guarantees	30	251	281	102	273	375		
Credit insurance	10	-	10	148	-	148		
Notes receivable	102	-	102	104	-	104		
Outstanding claims	-	13	13	-	13	13		
Subtotal:	142	264	406	354	286	640		
Total	\$4,313	\$1,056	\$5,369	\$5,686	\$1,149	\$6,835		
Percentage	80%	20%	100%	83%	17%	100%		

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

<i>(in millions of Canadian dollars)</i>	<b>March 31, 2011</b>		March 31, 2010	
	<b>Total</b>	<b>%</b>	Total	%
Commercial (by industry):				
Automotive	2,521	58	3,427	61
Aerospace	1,497	35	1,949	34
Marine	291	7	305	5
Other	4	-	5	-
Subtotal:	<b>4,313</b>	<b>100</b>	5,686	100
Sovereign (by country):				
China	400	38	436	38
Romania	251	24	273	24
Turkey	83	8	90	8
Argentina	80	8	80	7
Morocco	69	6	75	6
Other	173	16	195	17
Subtotal:	<b>1,056</b>	<b>100</b>	1,149	100
Total	<b>\$5,369</b>		\$6,835	

## Debt Forgiveness/Debt Relief for Sovereign Loans Receivable

In 1996, the International Monetary Fund and the World Bank proposed that relief be given on the external debt of some of the world's most Heavily Indebted Poor Countries (HIPCs). This initiative was approved by member governments including Canada. At March 31, 2011, Canada Account had loans receivable exposure eligible for debt relief or debt reduction to three HIPCs totaling \$24.1 million or 3.0% of the sovereign loan portfolio compared to \$25.2 million or 2.9% in 2009/2010. This exposure relates to agreements in place prior to 1996.

## Loan Portfolio by Interest Type

At the end of fiscal year 2010/2011, floating-rate loans amounted to \$2,525 million (2009/2010 - \$3,460 million) or 57% of total loans receivable (2009/2010 - 61%). The decrease in the floating-rate portfolio is primarily due to the loan prepayment by General Motors of Canada. Within this portfolio, \$1,402 million are LIBOR-based U.S. dollar-denominated loans (2009/2010 - \$1,506 million). The remaining floating-rate loans are either LIBOR-based Canadian dollar-denominated loans or prime-rate based Canadian and U.S. dollar-denominated loans. Fixed-rate loans totaled \$1,933 million (2009/2010 - \$2,195 million) or 43% of the portfolio. The decrease in the fixed-rate portfolio is due primarily to the impact of foreign exchange translation in addition to regularly scheduled repayments.

<i>(in millions of Canadian dollars)</i>	<b>March 31, 2011</b>			March 31, 2010		
	<b>Fixed</b>	<b>Floating</b>	<b>Total</b>	Fixed	Floating	Total
Concessional	643	17	660	702	18	720
Non-concessional	1,290	2,508	3,798	1,493	3,442	4,935
Total	<b>\$1,933</b>	<b>\$2,525</b>	<b>\$4,458</b>	\$2,195	\$3,460	\$5,655
Percentage	<b>43%</b>	<b>57%</b>	<b>100%</b>	39%	61%	100%

## Cash Flow Realized on Loans and Notes Receivable

The following table provides a summary of the interest and fees received on Canada Account loans and notes receivable. These cash flows were remitted to the CRF during the fiscal year net of the administration charge and leasing and financing related expenses. Almost all of the revenue generated from interest receipts originates from non-concessional loans; as concessional loans have either low or zero interest rates and/or extended repayment terms.

<i>(in millions of Canadian dollars)</i>	March 31, 2011			March 31, 2010		
	Average annual principal balance	Interest cash flow	%	Average annual principal balance	Interest cash flow	%
Concessional	706	-	.02%	789	-	.01%
Non-concessional	4,305	173	4.02%	5,474	229	4.18%
Total	\$5,011	\$173	3.46%	\$6,263	\$229	3.66%

The decrease in the average annual principal of the concessional loans was due to the impact of foreign exchange translation along with scheduled repayments. The decrease in the average principal balance of the non-concessional loans was due primarily to loan prepayments from General Motors of Canada and Air Canada during the fiscal period. These prepayments also reduced the interest received.

## Business Volumes

<i>(in millions of Canadian dollars)</i>	March 31, 2011			March 31, 2010		
	Commercial	Sovereign	Total	Commercial	Sovereign	Total
Financing:						
Concessional	-	-	-	-	-	-
Non-concessional	18	-	18	13,000	-	13,000
Loan guarantees	-	-	-	3	-	3
Total financing:	18	-	18	13,003	-	13,003
<i>No. of transactions</i>	2	-	2	20	-	20
Insurance	-	-	-	148	-	148
Total	\$18	-	\$18	\$13,151	-	\$13,151
<i>Percentage</i>	100%	-%	100%	100%	-%	100%

Total Canada Account financing volume decreased by \$13,133 million from the previous fiscal year. The business volume in 2009/2010 was elevated due to the support provided to the Canadian automotive industry.

## Leasing and Financing Related Expenses

Leasing and financing related expenses for 2010/2011 totaled \$49 million (2009/2010 - \$21 million). The majority of these costs are related to returned aircraft and include an impairment loss and depreciation. Depreciation is charged on a straight-line basis over the estimated useful life of the aircraft (15 years from the date of build). Also included in these expenses are legal fees related to the support provided to the Canadian automotive industry.

The impairment loss on leased assets represents a write-down on the value of the leased aircraft and is further discussed in Note 7.

Components of leasing and financing related expenses:

<i>(in millions of Canadian dollars)</i>	<b>March 31, 2011</b>	March 31, 2010
Impairment loss on leased assets (Note 7)	<b>44</b>	11
Depreciation	<b>4</b>	5
Legal fees – auto industry related	-	3
Insurance – returned and all aircraft portfolio	<b>1</b>	1
Other (financial guarantee insurance policy)	-	1
Total leasing and financing related expenses	<b>\$49</b>	\$21

## Paid and Outstanding Claims on Insurance

There are currently \$12.7 million (2009/2010 - \$12.9 million) in claims paid and unrecovered under Canada Account. The majority of these claims (\$12.1 million) were paid in 1995 to Russia under the political risk insurance program.

## Canada Account Financial Statements

### Statement of Receivables, Claims and Equipment Available for Lease

<i>As at March 31</i>		
<i>(in millions of Canadian dollars)</i>		
	<b>2011</b>	2010
Loans receivable (notes 3 and 4)	<b>4,458</b>	5,655
Notes receivable (note 5)	<b>102</b>	104
Allowance for losses on loans	<b>(1,471)</b>	(1,977)
Allowance for interest on loans	<b>(395)</b>	(285)
Portion expensed due to concessionary terms	<b>(596)</b>	(623)
Accrued interest and fees	<b>339</b>	240
Equipment available for lease (note 7)	<b>19</b>	67
Fair value of unsecured claims	-	2
Paid and outstanding claims on insurance	<b>13</b>	13
<b>Total</b>	<b>\$2,469</b>	\$3,196

### Statement of Loan Commitments, Contractual Obligations and Contingent Liabilities

<i>As at March 31</i>		
<i>(in millions of Canadian dollars)</i>		
	<b>2011</b>	2010
Loan commitments & contractual obligations (note 9)	<b>516</b>	691
Loan guarantees (note 10)	<b>282</b>	375
Allowance for loan guarantees	<b>(18)</b>	(67)
<b>Subtotal</b>	<b>780</b>	999
Indemnity agreement*	-	(44)
<b>Total</b>	<b>\$780</b>	\$955

\* *Third-party guarantees in favour of the Government.*

## Canada Account Financial Statements

### Statement of Revenue and Expenses

For the year ended March 31

(in millions of Canadian dollars)

	2011	2010
Revenue:		
Loan interest and guarantee fees	282	674
Amortization of discount	27	27
Insurance premiums	-	9
Lease revenue	5	7
Gain from restructuring concessions (note 8)	3	-
<b>Total revenue</b>	<b>317</b>	<b>717</b>
Expenses:		
Loss on foreign currency translation - net (note 2)	159	707
Provision for (reversal of) losses on loans and loan guarantees	(443)	5,696
Administrative charges (note 6)	7	6
Leasing and financing related expenses	49	21
<b>Total expenses</b>	<b>(228)</b>	<b>6,430</b>
<b>Net income/(loss)</b>	<b>\$545</b>	<b>\$(5,713)</b>

### Statement of Cash Flow to/from the Consolidated Revenue Fund

For the year ended March 31

(in millions of Canadian dollars)

	2011	2010
Remittances to CRF by EDC:		
Principal	1,430	548
Interest, premiums and fees	182	239
Lease revenue	4	6
Gain from restructuring concessions (note 8)	3	-
Claims recovered	-	8
Leasing and financing related expenses	(1)	(5)
Administrative charges (note 6)	(7)	(6)
<b>Total remitted</b>	<b>1,611</b>	<b>790</b>
Received from CRF by EDC:		
Principal	384	14,674
<b>Total received</b>	<b>384</b>	<b>14,674</b>
<b>Net cash (to) from the CRF</b>	<b>\$(1,227)</b>	<b>\$13,884</b>

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 CRF 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 supporting and developing, directly or indirectly, Canada's export trade, domestic trade and Canadian capacity to engage in either of these trades to respond to international business opportunities. Pursuant to Section 23 of the Act, the Minister, with the concurrence of the Minister of Finance, may authorize the Corporation to undertake certain financial and contingent liability transactions that are considered to be in the national interest. 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 and do include business in all of EDC's product categories (financing, accounts receivable insurance, contract insurance and bonding, and political risk insurance) except equity. 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.

The Act allows Canada Account to have outstanding commitments to borrowers, the principal amount of obligations owed to the Corporation and contingent liabilities under contracts of insurance and other arrangements up to an aggregate of \$20 billion. The position against this limit, determined in accordance with the requirements of the Act, was \$5,369 million at March 31, 2011 (March 2010 - \$6,835 million).

### Note 2: Summary of Significant Accounting Policies

#### Loans Receivable

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

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, including loans in default. It also includes capitalized amounts of interest and fees.

Consolidated information presented in the *Public Accounts of Canada* is prepared in accordance with criteria outlined in the Receiver General Manual (Chapter 15 – Public Accounts Instructions) and excludes amounts of capitalized interest and fees from total loans receivable.

#### Allowance for Losses on Loans

Allowances for Canada Account exposures are annually estimated by the Department of Finance and the Treasury Board Secretariat and recorded by the Department of Foreign Affairs and International Trade.

#### 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 fiscal year. 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.

### Note 3: Aging of Loans Receivable

The following table shows the aging distribution of loans receivable by concessional and non-concessional loans.

*(in millions of Canadian dollars)*

Fiscal	March 31, 2011			March 31, 2010		
	Concessional	Non-concessional	Total	Concessional	Non-concessional	Total
Past Due	11	841	852	-	872	872
10/11	-	-	-	39	335	374
11/12	27	312	339	28	205	233
12/13	26	166	192	28	194	222
13/14	26	163	189	19	131	150
14/15	31	130	161	40	239	279
15/16	25	182	207	26	932	958
16/17	24	197	221	25	204	229
17/18	24	1,264	1,288	26	1,269	1,295
18/19 and beyond	466	543	1,009	489	554	1,043
Total	\$660	\$3,798	\$4,458	\$720	\$4,935	\$5,655

### Note 4: Past Due Receivables

The following table provides a breakdown of principal, interest and fees in arrears at the end of the fiscal year. Of the \$1,216 million in arrears (2009/2010 - \$1,135 million), \$998 million (2009/2010 - \$934 million) is due from commercial borrowers. The increase in commercial past due receivables was caused by non-performing loans related to the automotive and marine industries becoming past due in the current fiscal year. Of the sovereign amount, \$95 million of arrears (2009/2010 - \$81 million) pertains to amounts due from HIPCs and may be eligible for debt and/or debt service forgiveness. The increase was due to additional non-performing loans that qualify for debt relief becoming past due during the year. The remainder of sovereign loans in arrears are eligible for rescheduling. Arrears from commercial loans, if not recovered, may be subject to restructuring and/or write-off.

*(in millions of Canadian dollars)*

	March 31, 2011			March 31, 2010		
	Commercial	Sovereign	Total	Commercial	Sovereign	Total
Non-concessional:						
Past due principal	751	101	852	782	90	872
Past due interest and fees	247	117	364	152	111	263
Total	\$998	\$218	\$1,216	\$934	\$201	\$1,135

### Note 5: Notes Receivable

Notes receivable represent promissory notes issued and due from the borrower in an aggregate amount equal to 6.67% of the loans in the automotive industry. These notes accrue interest which is payable at each interest payment due date or capitalized to the remaining note balance.

## Note 6: Canada Account 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 expenses and overhead of the Corporation arising out of Canada Account transactions. In 2010/2011, \$7 million (2009/2010 – \$6 million) was retained to meet the general expenses and overhead of the Corporation arising out of Canada Account transactions.

## Note 7: Equipment Available for Lease

Equipment available for lease consists of regional aircraft that were returned to us because of default under the related obligor's loan agreements in 2007/2008.

<i>(in millions of Canadian dollars)</i>	<b>March 31, 2011</b>	March 31, 2010
Equipment available for lease	<b>89</b>	89
Cumulative impairment loss	<b>(55)</b>	(11)
Accumulated depreciation	<b>(15)</b>	(11)
Net equipment available for lease	<b>\$19</b>	\$67
Number of aircraft	<b>6</b>	6

In December 2010, due to continued changing market conditions, a review of impairment was done on all six aircraft, and an analysis of future cash flows was performed where necessary. The analysis demonstrated a reduction in the future value of economic benefits associated with these aircraft and the decline in value was considered permanent. As a result, an impairment loss was recognized reducing the carrying value of the six aircraft by an additional \$44 million from the initial write-down of \$11 million in the previous year.

In addition, an assessment of the remaining useful life of the aircraft was done. We concluded that past impairment write-downs as a result of lower market values and reduced lease rates on new leases have had an impact on the remaining useful life of the aircraft. As a result, we reduced our estimate of the remaining useful life of each aircraft by five years with the remaining useful life being seven years.

Operating lease revenue for the year was \$5 million (2009/2010 - \$7 million). At the end of March 2011, all six aircraft were subject to operating leases with one lessee for which revenue is recognized on a straight-line basis over the terms of the underlying leases.

The following table presents minimum future lease payments receivable at the end of March:

<i>(in millions of Canadian dollars)</i>	<b>2011</b>	2010
2010	-	7
2011	<b>5</b>	4
2012	<b>4</b>	4
2013	<b>1</b>	1
Total	<b>\$10</b>	\$16

## Note 8: Gain from restructuring concessions

In 2007, Canada Account was awarded unsecured claims by the bankruptcy court which represented concessions provided to the obligor to assist them in exiting bankruptcy. Settlement of these claims was made on December 21, 2010 and a gain of \$3 million was realized.

## Note 9: Loan Commitments and Contractual Obligations

The nature of these activities can result in obligations whereby Canada Account will be obligated to make future payments. The undisbursed loan commitments are mainly composed of the remaining obligations for the loans related to the automotive industry.

<i>(in millions of Canadian dollars)</i>	<b>March 31, 2011</b>	March 31, 2010
Undisbursed loan commitments*	<b>505</b>	540
Insurance contingent liability	<b>10</b>	148
Obligation from loan restructuring	<b>1</b>	3
Total	<b>\$516</b>	\$691

*\*Includes an undisbursed commitment in place with Chrysler Canada which was subsequently cancelled in May 2011.*

## Note 10: Loan 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.

## Note 11: Subsequent Event

Subsequent to the fiscal year end, a principal prepayment of \$1.7 billion was made by Chrysler Canada Inc. on May 24, 2011 which reduced the amount owing on outstanding principal and additional notes receivable to both the Governments of Canada and Ontario to nil. In addition, the undisbursed commitment was no longer required and was cancelled.

## Note 12: Reclassification of Comparative Figures

Comparative figures have been reclassified to conform to the current year's presentation.

## Glossary

The purpose of this glossary is to explain some of the terms in the report. Such explanations are not necessarily for general application.

**Accounts Receivable Insurance** - An insurance policy that protects insured Canadian businesses from commercial and political risks related to export transactions with credit terms of up to 360 days.

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

**Aging Distribution** - The forecasted principal amortization of the current outstanding balance of loans receivable.

**Allowances** - Accumulated provisions against which future loan write-offs would be made.

**Average Annual Principal** - The average outstanding loans and notes interest-bearing receivable held during the fiscal year. Conversion is done using the average foreign exchange rate for the same period.

**Concessional Loans** - Loans which are interest free or at below-market interest rates and/or have extended repayment terms. On rare occasions a normal loan can be combined with a concessional loan to achieve an overall concessionality level of at least 35%, a level within the tied aid disciplines of the OECD "Arrangement on Guidelines for Officially Supported Export Credits".

**Consolidated Revenue Fund** - the aggregate of all public moneys that are on deposit at the credit of the Receiver General.

**Contingent Liability** - Potential debt which may become an actual financial obligation if certain events occur or fail to occur. Contingent liabilities are created by insurance policies and guarantees outstanding.

**Corporate Account** - Financing and contingent liability transactions undertaken by EDC for its own account. These transactions are maintained separately from Canada Account.

**Debt Forgiveness/Debt Relief** - An agreement whereby some or all of a country's sovereign debt obligations are forgiven or deferred for payment at a later date.

**Documentary Credits Insurance** - An insurance policy that protects insured Canadian financial institutions from commercial and political risks in respect of letters of credit issued by foreign banks in support of Canadian export sales.

**Equity** - An ownership interest in an entity.

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

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

**Interest Rate Risk** - The potential impact on revenues earned on interest bearing assets due to changes in interest rates.

**Interest Cash Flow** - Interest payments earned, received and remitted to the CRF during the fiscal year.

**LIBOR** - London Interbank Offer Rate - The floating interest rate at which banks in London are prepared to lend to first-class banks.

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

**OECD “Arrangement on Guidelines for Officially Supported Export Credits”** - An agreement between most Organization for Economic Cooperation and Development (OECD) member countries which sets maximum repayment terms, minimum interest rates and other conditions for official export credit support to minimize trade distortions.

**Political Risk Insurance** - An insurance that protects the insured from specific political risks including: transfer of funds; expropriation; war, revolution or insurrection. It covers investments made in the form of equity, loans, guarantees, assets and services.

**Provisions** - A charge against current income to establish and maintain a reserve against loan losses.

**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.

**Recourse Agreement** - An agreement whereby the holder of a financial asset has recourse to a third party if the debtor defaults.

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