Canada Account

ANNUAL REPORT 2013-2014

Canada

EDC

CANADA ACCOUNT ANNUAL REPORT

FOR THE GOVERNMENT OF CANADA YEAR ENDING MARCH 31, 2014

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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 under EDC's Corporate Account but are in the national interest. 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"). However, Canada Account transactions are assessed, entered into and managed by EDC, and are structured the same as Corporate Account transactions in that, for example, loans are fully repayable, are subject to interest and fees and policies are subject to premiums and fees. Except for investment transactions, Canada Account transactions can consist of transactions or classes of transactions that EDC has the power to enter into pursuant to Section 10 of the Act, including business in all of EDC's product categories (financing, credit insurance, financial institutions insurance, contract insurance and bonding, and political risk insurance).

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 up to an aggregate of $20 billion in contingent liabilities (i.e.: insurance policies, guarantees and other contingent arrangements), outstanding commitments to borrowers and outstanding principal amounts owed by borrowers. (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 the Corporation manages 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 an allowance for credit losses to approximate their net realizable value.

Management

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, 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 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, Trade and Development which provides the mechanism whereby funding requests 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.

Since 2009, EDC has been operating under broadened powers to help increase access to credit for Canadian companies by participating in domestic financing and insurance transactions with private-sector financial institutions, insurance providers and the surety industry. The government has since reviewed and assessed EDC's activities, and it has resulted in the drafting of new regulations which came into force on March 11, 2014 (the "New Regulations"). The New Regulations clarify the circumstances in which EDC can provide support within Canada. They also enable EDC to provide support for purely domestic transactions (financing, guarantees and insurance) to companies that have at least 50 percent of their total annual consolidated sales in export and foreign markets.

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. 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.

Policy on Concessional Financing

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) 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 2013-2014:

- Similar to last year, there were no Ministerial Authorizations for new transactions this year.
- In 2008/2009, Canada Account supported transactions for the construction and sale of five vessels for two foreign buyers by Davie Yards. Davie Yards filed for creditor protection under the *Companies' Creditors Arrangement Act* in February 2010. In July 2011, a special purpose company ("Davie Canada") capitalized by Upper Lakes Group purchased the main shipbuilding assets of Davie from the bankrupt estate. In 2012, Davie Canada was put up for sale by Upper Lakes Group. Zafiro Marine purchased the Davie assets. In 2013, Cecon ASA purchased the Canada Account loans and all collateral related to the construction of the three partially constructed vessels under the condition that the vessels would be completed at Davie Canada. This resulted, net of sales proceeds, in a write-off of $229 million in principal and accrued interest in 2012-2013. In 2013-2014 Canada Account received $1 million from the new owners of Davie to purchase the collateral related to the Ocean Hotels loans, resulting in a write-off of $118 million in principal and accrued interest.
- During the year, $82.5 million CAD in loans receivable with one obligor in the aerospace industry were repaid in full.
- Remittances in principal, interest, lease revenue, claims recovered and fees, net of expenses, totaling $317 million were made to the CRF by EDC.

Position against Statutory Limit

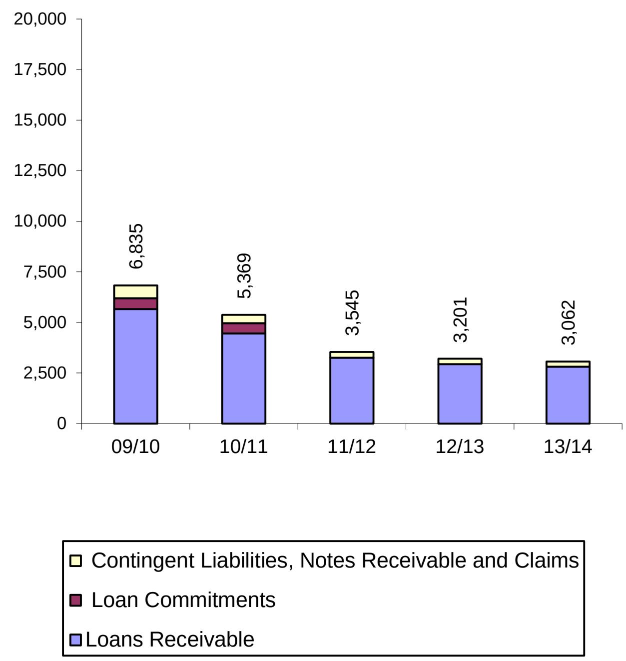
Section 24 of the Act allows Canada Account to have up to an aggregate of $20 billion in contingent liabilities (i.e.: insurance policies, guarantees and other contingent arrangements), outstanding loan commitments to borrowers and outstanding principal amounts of obligations owed to the Corporation. The position against this limit at March 31, 2014 was $3,062 million (March 2013 - $3,201 million). Details of this position are as follows:

(in millions of Canadian dollars)	**March 31, 2014**	March 31, 2013
Loans Receivable		
Concessional	**633**	621
Non-concessional	**2,179**	2,312
	2,812	2,933
Notes Receivable		
Notes receivable	**55**	51
Contingent Liabilities		
Loan guarantees	**186**	208
Credit insurance	**9**	9
	195	217
Position Against Statutory Limit	**$3,062**	$3,201

Five-Year Summary

The higher position against the statutory limit in 2009-2010 in comparison to subsequent years was the result of the support provided by Canada Account for the restructuring and renewal of the Canadian automotive industry. Decreases in the position are primarily the result of loan repayments and debt forgiveness, offset by foreign exchange translation due to the depreciation of the Canadian dollar against the U.S. dollar. In the 2010 to 2012 timeframe, the position against the statutory limit also decreased due to principal prepayments made by General Motors of Canada and Chrysler Canada.

Position Against Canada Account Statutory Limit Five-Year History *(in millions of Canadian dollars)*



Concentration of Exposure

The following reflects the country exposure where the risk resided as at March 31, 2014.

Country *(in millions of Canadian dollars)*	Concessional loans receivable	Non-concessional loans receivable	Loan guarantee	Notes receivable	Credit insurance	**Total**	*%*
United States	-	2,019	-	55	-	**2,074**	*68*
China	403	-	-	-	-	**403**	*13*
Romania	-	-	186	-	-	**186**	*6*
Turkey	86	-	-	-	-	**86**	*3*
Argentina	-	83	-	-	-	**83**	*3*
Morocco	70	-	-	-	-	**70**	*2*
Other *	74	77	-	-	9	**160**	*5*
Total	$633	$2,179	$186	$55	$9	**$3,062**	*100*

** Includes 14 countries with exposures ranging from $0.03 million to $42 million.*

Exposure by Currency

(in millions of Canadian dollars)	**March 31, 2014**				March 31, 2013			
Currency	**Amount**	**CAD Equiv.**	***Exchange Rate***	***%***	Amount	CAD Equiv.	*Exchange Rate*	*%*
USD	**2,538**	**2,805**	***1.1055***	***92***	2,863	2,909	*1.0160*	*91*
CAD	**257**	**257**	**-**	***8***	279	279	-	*9*
EUR	**-**	**-**	**-**	**-**	10	13	*1.3024*	-
Total		**$3,062**		***100***		$3,201		*100*

The decrease in USD exposure is related to the repayment of loans with one obligor in the aerospace industry, as well as the write-off of the Ocean Hotels loans, and normal repayments on non-concessional loans in the aerospace industry.

Commercial and Sovereign Exposure

(in millions of Canadian dollars)	**March 31, 2014**			March 31, 2013		
	Commercial	**Sovereign**	**Total**	Commercial	Sovereign	Total
Loans Receivable:						
Concessional	**-**	**633**	**633**	12	609	621
Non-concessional	**2,052**	**127**	**2,179**	2,183	129	2,312
Subtotal:	**2,052**	**760**	**2,812**	2,195	738	2,933
Notes Receivable	**55**	**-**	**55**	51	-	51
Contingent Liabilities & Claims:						
Loan guarantees	**-**	**186**	**186**	-	208	208
Credit insurance	**9**	**-**	**9**	9	-	9
Subtotal:	**9**	**186**	**195**	9	208	217
Total	**$2,116**	**$946**	**$3,062**	$2,255	$946	$3,201
Percentage	***69%***	***31%***	***100%***	*70%*	*30%*	*100%*

The decrease in the commercial concentration was primarily due to the write-off of the Ocean Hotels loans, the repayment of loans with one obligor in the aerospace industry, as well as regularly scheduled repayments.

Overall our sovereign exposure remained consistent when compared to the prior year. Sovereign loans receivable increased primarily as a result of foreign exchange translation. The decrease in the sovereign exposure for contingent liabilities and claims was due to regularly scheduled repayments.

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

(in millions of Canadian dollars)	**March 31, 2014**		March 31, 2013	
	Total	**%**	Total	%
Commercial (by industry):				
Aerospace	**1,093**	**52**	1,232	55
Automotive	**1,014**	**48**	937	42
Extractive	**9**	**-**	9	-
Marine	**-**	**-**	77	3
Subtotal:	**2,116**	**100**	2,255	100
Sovereign (by country):				
China	**403**	**43**	386	41
Romania	**186**	**20**	208	22
Turkey	**86**	**9**	82	9
Argentina	**83**	**9**	80	8
Morocco	**70**	**7**	67	7
Other	**118**	**12**	123	13
Subtotal:	**946**	**100**	946	100
Total	**$3,062**		$3,201	

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. The exposure relates to agreements in place prior to 1996. At March 31, 2014, Canada Account had loans receivable exposure eligible for debt relief or debt reduction to one HIPC totaling $10.6 million or 1.4% of the sovereign loan portfolio (March 31, 2013 - $9.4 million or 1.3%).

Loan Portfolio by Interest Type

(in millions of Canadian dollars)		**March 31, 2014**			March 31, 2013	
	Fixed	**Floating**	**Total**	Fixed	Floating	Total
Concessional	**627**	**6**	**633**	615	6	621
Non-concessional	**1,019**	**1,160**	**2,179**	1,075	1,237	2,312
Total	**$1,646**	**$1,166**	**$2,812**	$1,690	$1,243	$2,933
Percentage	***59%***	***41%***	***100%***	*58%*	*42%*	*100%*

The fixed rate portfolio decreased by $44 million, the result of the repayment of loans with one obligor in the aerospace industry, as well as regularly scheduled repayments, partially offset by the impact of a weaker Canadian dollar. The floating rate portfolio decreased by $77 million, primarily due to the write-off of the Ocean Hotels loans and the repayment of loans with one obligor in the aerospace industry, partially offset by the impact of a weaker Canadian dollar.

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.

(in millions of Canadian dollars)		**March 31, 2014**				March 31, 2013
	Average annual principal balance	**Interest cash flow**	**%**	Average annual principal balance	Interest cash flow	%
Concessional	**628**	**-**	**.01%**	627	-	.02%
Non-concessional	**2,274**	**54**	**2.37%**	2,559	60	2.34%
Total	**$2,902**	**$54**	**1.86%**	$3,186	$60	1.88%

The decrease in the average principal balances was due primarily to regularly scheduled repayments, two loan write-offs, and the repayment of loans with one obligor in the aerospace industry, partially offset by the impact of a weaker Canadian dollar.

Financial Arrangements Facilitated

There were no financial arrangements facilitated greater than $1 million to report for the fiscal year ending March 31, 2014 (2012-2013 – none greater than $1 million).

Leasing and Financing Related Expenses

(in millions of Canadian dollars)	**March 31, 2014**	March 31, 2013
Depreciation	**2.0**	2.0
Insurance – returned and all aircraft portfolio	**0.4**	1.0
Other	**0.6**	1.0
Total leasing and financing related expenses	**$3.0**	$4.0

The majority of leasing and financing related expenses are from returned aircraft. Depreciation is charged on a straight-line basis over the estimated useful life of the aircraft (15 years from the date of build).

Paid and Outstanding Claims on Insurance

There are currently $0.3 million (2012-2013 - $0.3 million) in claims paid and outstanding.

Canada Account Financial Statements

Statement of Receivables and Equipment Available for Lease

As at March 31

(in millions of Canadian dollars)	**2014**	2013
Loans receivable (notes 3 and 4)	**2,812**	2,933
Notes receivable (note 5)	**55**	51
Allowance for losses on loans	**(1,160)**	(1,234)
Allowance for interest on loans	**(768)**	(607)
Portion expensed due to concessionary terms	**(505)**	(532)
Accrued interest and fees	**710**	552
Equipment available for lease (note 7)	**13**	16
Total	**$1,157**	$1,179

Statement of Contingent Liabilities

As at March 31

(in millions of Canadian dollars)	**2014**	2013
Credit insurance	**9**	9
Loan guarantees (note 8)	**186**	208
Allowance for loan guarantees	**(6)**	(7)
Total	**$189**	$210

Canada Account Financial Statements

Statement of Revenue and Expenses

For the year ended March 31 *(in millions of Canadian dollars)*	**2014**	2013
Revenue:		
Loan interest and guarantee fees	**239**	195
Gain on foreign currency translation - (note 2)	**273**	60
Amortization of discount	**27**	27
Lease revenue	**4**	4
Total revenue	**543**	286
Expenses:		
Provision for (reversal of) losses on loans and loan guarantees	**242**	(34)
Leasing and financing related expenses	**3**	4
Administrative charges (note 6)	**2**	4
Total expenses	**247**	(26)
Net income	**$296**	$312

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

For the year ended March 31 *(in millions of Canadian dollars)*	**2014**	2013
Remittances to CRF by EDC:		
Principal	**265**	200
Interest, premiums and fees	**52**	68
Lease revenue	**4**	4
Leasing and financing related expenses	**(2)**	(2)
Administrative charges (note 6)	**(2)**	(5)
Total remitted to the CRF	**317**	265

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.

There was no cash received from the CRF in 2013-2014 (nil 2012-2013).

Notes to the Financial Statements

Note 1: Mandate and Authority

EDC was 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 and to respond to international and domestic 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 include business in all of EDC's product categories (financing, credit insurance, financial institutions insurance, contract insurance and bonding, and political risk insurance) other than investments. 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 up to an aggregate of $20 billion in contingent liabilities (i.e.: insurance policies, guarantees and other contingent arrangements), outstanding commitments to borrowers and outstanding principal amounts owed by borrowers. The position against this limit, determined in accordance with the requirements of the Act, was $3,062 million at March 31, 2014 (March 2013 - $3,201 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, Trade and Development.

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 statement of revenue and expenses 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)		**March 31, 2014**			March 31, 2013	
Fiscal	**Concessional**	**Non-concessional**	**Total**	Concessional	Non-concessional	Total
Past Due	**-**	**1,052**	**1,052**	-	989	989
13/14	**-**	**-**	**-**	27	154	181
14/15	**29**	**185**	**214**	39	179	218
15/16	**28**	**174**	**202**	26	169	195
16/17	**27**	**199**	**226**	25	193	218
17/18	**27**	**198**	**225**	25	194	219
18/19	**27**	**178**	**205**	25	199	224
19/20	**28**	**127**	**155**	25	133	158
20/21	**28**	**50**	**78**	26	64	90
21/22 and beyond	**439**	**16**	**455**	403	38	441
Total	**$633**	**$2,179**	**$2,812**	$621	$2,312	$2,933

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. The $231 million increase in commercial past due receivables was due to additional interest and fees accruing on past due principal and an increase in overdues due to the weakening of the Canadian dollar, partially offset by the write-off of Ocean Hotels. The $27 million increase in Sovereign past due receivables was due to additional interest and fees accruing on past due principal and an increase due to the weakening of the Canadian dollar.

(in millions of Canadian dollars)		**March 31, 2014**				March 31, 2013
	Commercial	**Sovereign**	**Total**	Commercial	Sovereign	Total
Past due principal	**959**	**93**	**1,052**	899	90	989
Past due interest and fees	**584**	**167**	**751**	413	143	556
Total	**$1,543**	**$260**	**$1,803**	$1,312	$233	$1,545

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 2013-2014, $2 million (2012-2013 – $4 million) was retained to meet the general expenses and overhead of the Corporation arising out of Canada Account transactions. The $2 million retained in 2013-2014 represents $4 million originally retained less a $2 million adjustment related to amounts retained in previous periods.

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.

(in millions of Canadian dollars)	**March 31, 2014**	March 31, 2013
Equipment available for lease	**89**	89
Cumulative impairment loss	**(56)**	(55)
Accumulated depreciation	**(20)**	(18)
Net equipment available for lease	**$13**	$16
Number of aircraft	**6**	6

On an annual basis we assess whether there is any indication of impairment of our regional aircraft given current market conditions. In the final quarter of 2013-2014 a review of impairment was done. As a result, an impairment loss was recognized, reducing the carrying value of the aircraft by $592 thousand.

Operating lease revenue payments for the year were $4 million (2012-2013 - $4 million). At the end of March 2014, negotiations had begun for the sale of all six aircraft, estimated to occur in the first quarter of 2014-2015. Approximately $0.7 million in lease payments received for the months of February and March 2014, as well as all future lease payments received, will be applied to the purchase price of the aircraft once the sale has occurred.

The following table presents minimum future lease payments receivable:

(in millions of Canadian dollars)	**March 31, 2014**	March 31, 2013
2013	**-**	4
2014	**3**	4
Total	**$3**	$8

Note 8: 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.

Glossary of Financial Terms

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 - The allowance for losses on loans, loan commitments and guarantees represents management's best estimate of probable credit losses.

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 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.

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

Contract Insurance and Bonding – An insurance policy that provides cover for sales on exposure terms usually greater than one year and includes export credit insurance and guarantees, performance guarantees and surety, extending cover for risks inherent in performance related obligations.

Credit 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.

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.

Financial Institutions Insurance - Insurance provided to Canadian financial institutions that covers their foreign bank and foreign buyer counterparty risk in business transactions.

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 risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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

Investments - An ownership interest in an entity.

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 an allowance 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.

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

Canada

EDC