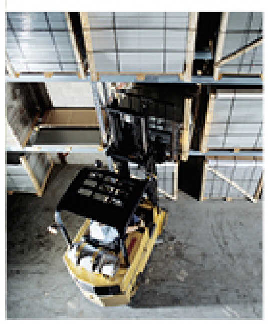
2013–2017

# CORPORATE PLAN SUMMARY

OPERATING BUDGET • CAPITAL BUDGET • BORROWING PLAN

MARCH 2013



Canada

EDC

Realize a World of Opportunity

# 2013-2017 CORPORATE PLAN SUMMARY

The 2013–2017 Corporate Plan was approved by EDC's Board of Directors on October 17, 2012. The Plan and its underlying assumptions were developed over the summer and fall of 2012, during a period of ongoing uncertainty in the global economy. While the Plan and its underlying assumptions were aligned with the economic environment at the time of their development, continued volatility in the global economy may alter the economic landscape and, in some cases, impact the assumptions upon which the Plan is based.

# INTRODUCTION

Since 1944, Export Development Canada (EDC) has played an important role in building Canada's trade capacity. Every transaction that EDC undertakes is designed to create benefits for Canada– benefits that will generate growth, prosperity and jobs for Canadians.

Through its international trade expertise and suite of financing and insurance solutions, EDC facilitates trade by helping Canadian companies be more competitive, helping them to take advantage of global international business opportunities. Working together with our partners in government, EDC is also helping to create trade where it would not otherwise take place by helping Canadian businesses expand into new markets and identifying opportunities that play to Canada's strengths.

EDC's expertise in international trade and risk management, our strong network of public- and private-sector partners and our ongoing commitment to deliver value to our customers are what drives the corporation's vision of being the most knowledgeable, most connected, most committed partner in trade for Canada. The initiatives profiled in the 2013-2017 Corporate Plan highlight how we are working towards this vision over the next five years and beyond.

# EXECUTIVE SUMMARY

EDC is a Crown corporation which provides trade finance and risk management services to Canadian companies to help them take advantage of global trade and investment opportunities. The corporation's mandate is to support and develop, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade, as well as respond to international business opportunities. Since March 2009, and until March 2013, EDC is also responding to the domestic needs of Canadian companies within the trade-related space. At the core of EDC's mission is its unique ability to take on and manage significant levels of financial risk in order to facilitate the success of Canadian companies in international markets.

**The Planning Environment**

Three major forces continue to shape the planning horizon. First, major parts of the global economy are still struggling in the aftermath of the 2008 financial crisis. Although the economy was expected to recover and settle into a steadier growth path more quickly, volatility will continue to temper growth in the short term. Second, while liquidity is returning to the market in many areas, the new international financial regulatory framework is impacting banks and insurance companies' ability to engage in trade finance activities. Third, emerging markets continue to grow, spurring the development of major infrastructure projects and driving strong demand for natural resources. The impact of this demand on commodity prices has contributed to a strong Canadian dollar, despite slower economic growth in Canada.

The result is an evolving economic landscape which, although not significantly different from last year's, remains two-sided. On the one hand slower growth for Canada's long-established trade partners is contributing to diminished opportunities for many Canadian companies which rely on these markets, particularly small business. On the other hand, emerging markets are experiencing sustained expansion, driving increased trade flows between them. Opportunities abound for Canadian companies willing to venture beyond the traditional markets and establish a presence abroad to take advantage of these shifting patterns of trade. At home, renewed emphasis on the development of resources within Canada and the growth of Canada's ocean cluster reflect the increased global demand for energy and natural resources.

The outlook for the planning period calls for a disparity in 2013 between a growing resource sector and other sectors still experiencing challenging conditions. Beyond 2013 however, all sectors should benefit from the increased pace of export growth.

## The Business Strategy

Last year, EDC launched a new corporate strategy focused on creating benefits for Canadian companies in an uncertain environment. Thanks to this strategy, EDC remains very well positioned to deliver value to Canadian businesses in the current economic environment. The 2013-2017 Business Strategy constitutes a next step in the direction set last year. It highlights the progress we have made in the initiatives launched in the 2012-2016 Plan. It introduces new areas of opportunity to explore, but maintains a stable scope of activities as we continue to invest in delivering value to our clients through our core business and through the priorities identified in 2012.

The 2013-2017 Business Strategy is built around two fundamental strategic objectives:

- *Trade Facilitation* - Trade facilitation continues to be EDC's core business. EDC will continue to adapt and improve its suite of financing and insurance solutions in response to the evolving needs of Canadian companies.
- *Trade Creation* - EDC has a critical role to play in introducing Canadian companies to opportunities they would not otherwise have been aware of or able to access. The activities related to this strategic objective are made possible by achieving productivity gains which free up resources within the organization.

In order to achieve these objectives, EDC will continue to invest in its three core strengths: our people and their unique talents, our technological platform, and our financial capital. Firstly, we will strive to anticipate the people risks that could prevent the corporation from achieving its business priorities and ensure we have the right resources to deliver on our mandate. Secondly, EDC will make significant new investments over the planning period to modernize its key business systems to support continuous improvement of our service offering and to accommodate growing demand with existing human resources. The strengthening of our service delivery to small Canadian businesses will be a particular focus of this effort. Finally, the corporation will ensure it leverages its capital to the fullest extent in the execution of its mandate, while ensuring it has adequate capital to meet the demands of its current and future business, including in the event of significant unforeseen challenges.

EDC remains committed to Corporate Social Responsibility (CSR) and to a Partnership-Preferred Philosophy, our two overarching principles. EDC's Partnership-Preferred Philosophy means that whenever possible, we will use our financial capacity in a manner that is complementary to the products and services of private-sector financial institutions. In particularly challenging markets or sectors, EDC will use its capital strength without other financial players but will, where relevant, look to create conditions that will favour the participation of the private sector. EDC's commitment to CSR is founded on our goal to meet the expectations of Canadians to act as good corporate citizens, upholding Canada's values both at home and abroad, while ensuring that Canadian businesses benefit from international business opportunities.

The 2013-2017 Business Strategy highlights key initiatives that correspond to the four dimensions of our strategic framework:

*Business Development:* At EDC, business development means going beyond our financial solutions and proactively developing trade opportunities that Canadian companies would otherwise not be able to access. This is done through a variety of trade creation tools, as well as through three strategic initiatives launched in 2012: Aerospace, Clean technologies and Indian infrastructure. The Business Development section of the Plan profiles how our activities in Canada and our international representations are helping Canadian exporters and investors succeed.

*Operations:* EDC operates on commercial terms, while fully leveraging its capital to meet its mandate, adding financial capacity to the market where it is needed and delivering value to our customers through the continuous improvement of our financial solutions. Over the planning period, EDC will focus on how it can broaden access to its services through online tools to reach a larger proportion of small business exporters, while focusing its customized services on high-growth companies that need its expertise.

*Risk Management:* EDC's ability to adequately manage the significant risks we take to help Canadian companies be successful is a key competency of the organization. It is supported by a strong risk management culture and effective policies and processes. The new Enterprise Risk Management group will elevate the critical importance of understanding, planning and preparing for the multitude of risks to which the corporation is exposed, while enabling us to provide the best possible service to Canadian exporters.

*Financial Sustainability:* Financial sustainability and a continual focus on efficiency enables the corporation to effectively respond to the demands of its customers today, without compromising its ability to serve Canadian global businesses in the long term. Over the planning period, EDC has committed to spend no more than approximately 25 cents of every dollar earned on overhead costs. To do so, EDC must continually achieve productivity gains to ensure it fulfills its mandate to the fullest.

## The Financial Plan

EDC's ability to deploy its lending and insurance solutions to Canadian global businesses is dependent on the corporation's commitment to sound financial management. The 2013-2017 Financial Plan outlines how EDC is managing its administrative and operating expenses. It provides a detailed analysis of how the changes to EDC's Capital Adequacy Policy will ensure the corporation adequately manages its supply of capital while continuing to take on significant risks to ensure Canadian companies are best positioned in international markets, despite an uncertain environment. Key business assumptions which underlay EDC's projected financial performance, including projected consolidated statements of income and comprehensive income, statements of financial position, statements of changes in equity, and statements of cash flow, as well as planned capital expenditures for 2013-2017, are also highlighted.

# CHAPTER 1: THE PLANNING ENVIRONMENT

## Introduction

Over the next five years, the global economic environment will be shaped by the significant volatility expected to continue in the shorter term. While Canadian exporters have reason to be optimistic in the later years of the planning horizon, as the economy is expected to recover and settle into a steadier growth path, the economic trends of the past 12 months will continue to temper growth in the near future.

Three major forces continue to shape the planning horizon. First, major parts of the global economy continue to operate in an economic crater caused by the crisis in the U.S. financial sector in 2008. Second, the introduction of a new, international financial regulatory framework aimed at preventing a future credit crisis is impacting many international banks and insurance companies' ability to lend and provide coverage. Third, emerging markets continue to grow, spurring the development of major infrastructure projects and driving strong demand for natural resources. The impact of this demand on commodity prices has contributed to a strong Canadian dollar, despite slower economic growth in Canada.

This two-track economy presents both challenges and opportunities for Canadian exporters. Slower growth for Canada's long-established trade partners is contributing to diminished opportunities for many Canadian companies, particularly small businesses, which have traditionally focused on these markets. This trend, combined with a high Canadian dollar and the relative strength of the domestic economy, has resulted in many companies choosing to leave the export market altogether.

However, the strong, sustained growth of emerging markets presents a wealth of opportunities for Canadian companies willing to venture beyond the traditional markets and establish a presence abroad. The growth and size of these markets has led to a strong increase in trade flows between emerging markets, known as South-South trade, presenting opportunities for Canadian exporters to integrate into growing supply chains that service this South-South trade. At home, emphasis on the development of resources within Canada is responding to the increased global demand for energy and natural resources and creating opportunities to participate in this development.

This chapter will provide EDC's economic outlook for the planning period, including the impacts of the new international credit and regulatory environments. We will examine the challenges affecting small businesses, as well as opportunities for growth in emerging markets, as observed by EDC's economic experts and customer-facing employees.

## 1.1 THE GLOBAL OUTLOOK

### Challenges in the Global Financial System

As noted earlier, the future of the Euro is likely to be tested over the planning period, making Europe a critical planning variable, as a default by one or more member countries or a breakup of the Euro would have cascading effects throughout the world's financial system. These, and other heightened risks have been key drivers in EDC's review of its Enterprise Risk Management.

Other factors shaping the credit environment for financial institutions include the impact of Basel III (a comprehensive set of reform measures designed to improve the regulation, supervision and risk management within the banking sector) and Solvency II (an updated set of regulatory requirements for insurance firms that operate in the European Union). Over the planning period, the corporation will also explore ways in which it can refine its financing service offering in order to better serve Canadian exporters in the context of the Basel III framework and its impact on the financial industry.

### The Rise of New Trade Flows

While traditional Western economies cope with credit constraints and economic uncertainty, emerging markets continue to show promise. This growth is particularly apparent with respect to trade between emerging markets. Commonly referred to as South-South trade, integrated intra-regional supply chains, particularly within Asia, as well as significant regional and sub-regional trading associations in Africa and Latin America are consistently showing annual growth of more than 20%.

Canada's foreign affiliate sales (FAS) show that Canada is already present in the South-South space. Canadian-owned foreign affiliates, whose sales are about the same magnitude as direct exports from Canada, have become increasingly important, both as a source of lower-cost inputs for Canadian operations, as well as a vehicle to sell directly to foreign customers. Although the U.S. has been Canada's prime FAS location, its share of total FAS has plunged from 65% to just under 50%, while the share of Canadian FAS in emerging markets has risen from 12% to 28%.

Similarly, Canadian direct investment abroad (CDIA) in emerging markets is also on the rise. In 2000, half of CDIA was in the U.S., while 22% of CDIA was in emerging markets. Since then, the U.S. share has slipped to 40%, while emerging markets have gained ground, rising to almost 28% of total CDIA.

Canadian foreign direct investment is an important channel for companies to effectively capitalize on the opportunities arising from South-South trade. The Business Strategy chapter will highlight how EDC enables Canadian exporters to invest abroad and how the corporation is helping to identify supply chains which offer the best southbound trade opportunities.

## 1.2 CANADA'S TRADE AND INVESTMENT PERFORMANCE

At first glance, Canada's trade and investment performance appears to tell a positive story, despite slower growth in GDP and the economic volatility coming out of Europe. EDC's export forecast for Canada shows strong growth in the near future, with exports predicted to rise between 6 and 8% in 2012 and 2013. However, closer examination reveals that Canada's trade performance is uneven, and reflective of the current two-track economy.

Exports in the extractive and resource sectors are on the rise, responding to strong demand from emerging markets. This demand is offsetting a softening of commodity prices, which continue to be volatile. However, many exporters in other sectors, particularly those reliant on the U.S. market, continue to face significant challenges. This is particularly true of the information technology, light manufacturing and transportation sectors, which have yet to see their annual export sales return to pre-recession (2007) levels.

The importance of a vibrant, trade-engaged, small business sector cannot be underestimated. Over the last decade, 47% of all jobs in Canada that were created during this time were created by small businesses.[1] Moreover, small business exporters employ twice as many people, spend six times more on research and development and have revenues of more than twice their domestic equivalents.

Small business exporters face a number of challenges in the international marketplace. Often these companies lack the connections necessary to identify export opportunities as they arise, as well as the resources and knowledge to look for and find needed information, resulting in missed opportunities for growth. Access to financing is another challenge for many small businesses, particularly for those which have grown beyond the venture capital stage but do not yet qualify for traditional financing solutions.

There are a number of players in Canada who work with small businesses to help them address these challenges. EDC works with the private sector, helping to bring financial capacity and knowledge to the market. EDC uses its financial solutions to help Canadian small business exporters access working capital and other forms of financing, and as well mitigate business risks. In addition, EDC seeks to complement the Department of Foreign Affairs and International Trade's (DFAIT) Trade Commissioner Service's (TCS) extensive international network and expertise in trade which helps companies navigate foreign markets and connect into export and investment opportunities. The Business Development Bank of Canada (BDC) is another key collaborator. In 2011, EDC and BDC signed a Protocol to ensure that their Canadian customers have access to the services and financial capacity that best suits their needs.

[1] Industry Canada (small businesses defined as companies with fewer than 100 employees)

Looking ahead, the corporation is exploring ways of enhancing both our financing and insurance offering in the small business space. This will include leveraging our partnership with BDC to bring value to this important segment and help those Canadian small business exporters looking to grow, identify and realize international business opportunities. EDC's renewed focus on working with small business exporters is reflected in the introduction of a new small business measure as part of the corporation's scorecard.

## 1.3 OPPORTUNITIES FOR CANADIAN COMPANIES

The two-track economy presents significant opportunities for Canadian exporters in a wide variety of sectors. The following section highlights some areas of focus for the upcoming planning period.

### Creating Opportunities through Trade Diversification

Continued growth in emerging markets presents a wealth of opportunities for Canadian companies willing to diversify their customer base and integrate into South-South supply chains. EDC's economic intelligence shows that Canadian companies are increasingly looking to trade diversification as a way to grow their business.

In the forestry sector, although the recovering U.S. housing market is driving demand in the U.S., companies are also continuing to diversify into emerging markets such as China. Similarly, Canadian agri-business is positioning itself to meet the growing needs of emerging economies to become more efficient in their food production. In the automotive sector, Original Equipment Manufacturers (OEM) have a strong and growing presence in emerging markets. Parts manufacturers, have decided to localize closer to OEM production facilities, presenting opportunities for Canadian suppliers across the value chain.

Large infrastructure projects in emerging markets, particularly with respect to transportation and health care, are increasingly focused on public-private partnerships (P3), an area of Canadian expertise. Companies with experience in P3 projects are well positioned to capitalize on the opportunities created by these projects. EDC has collaborated with P3 Canada on a number of initiatives, such as a joint online panel for foreign companies and a P3 life cycle report for customer-facing EDC and TCS employees on how to promote trade development through P3.

### The Development of Natural Resources in Canada

Canada is a world-renowned supplier of natural resources. As emerging economies such as China seek out new sources of natural resources to feed their growing economies, Canada is becoming an increasingly attractive destination for investment.

The development of Canada's natural resources not only impacts the export of sought-after commodities around the globe, it also creates world-class capabilities within Canada. Canadian and foreign investment into Canada's resources sector is creating conditions for Canadian firms – particularly small and mid-market companies – to gain expertise and credibility by serving large export projects, creating income and jobs across the country. This in turn allows them to integrate into international supply chains to which they may otherwise not have had access.

EDC's capabilities align well with these opportunities for growth, while initially rooted in Canada, are inherently connected to global success. EDC's participation in this sector, complementing the private sector, will enable Canadian companies to increase their competitiveness and develop future export opportunities. This complementary approach has worked well in the auto and the aerospace sectors, where EDC works with suppliers to major exporters. This approach can be further leveraged in the resource sector, especially if the demand for financial capital for resource development projects is especially robust.

### Strengthening Canada's Ocean Industry Cluster

The development of an ocean industry cluster in Canada presents new economic opportunities for Canadian companies of all sizes, with significant potential to translate into international growth. The Ocean Industry Cluster is comprised of two interconnected industries: offshore oil and gas and shipbuilding. Both industries will require advanced technology, high levels of research, development and innovation, and a highly skilled labour force. Both will also have a definite export focus.

The financial intermediation that EDC provides will help Canadian companies along the supply chain not only take advantage of the opportunities that will be created as projects come into development, but it will also help position them to become more knowledgeable about their respective industry and therefore more competitive for future export opportunities.

Over the planning period, EDC will continue to strengthen its relationships with project sponsors and companies along the supply chain to adapt our solutions to their needs, helping companies develop their competencies and move to international markets.

### EDC as a Partner in Trade for Canada

The following chapter outlines how EDC will work with its public- and private-sector partners to help Canadian companies meet the challenges posed by an uncertain global environment and take advantage of the many global opportunities.

# CHAPTER 2: THE BUSINESS STRATEGY

## 2.1 OVERVIEW

EDC's 2012-2016 Corporate Plan introduced significant changes to our corporate strategy, with a new approach, a new structure and new themes, setting the direction for several years. The 2013-2017 Business Strategy represents an evolution of many of the themes and initiatives introduced in last year's Plan, highlighting EDC's progress to date and its response to some of the changes observed in the planning environment.

As always, EDC's mandate - to support and develop, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade, as well as respond to international business opportunities - forms the cornerstone of the corporation's business strategy. The 2013-2017 Business Strategy is built around two fundamental strategic objectives which support our mandate:

- **Trade Facilitation** - In the current credit environment, consistent and predictable access to financial intermediation can make the difference between success and failure for exporters and investors. EDC has over the years developed an offering of effective services and solutions, which it will continue to adapt and improve as the reality Canadian companies face keeps evolving. Trade facilitation continues to be EDC's core business.
- **Trade Creation** - As Canadian companies strive to seize opportunities in a changing environment, EDC has a critical role to play in identifying opportunities that Canadian companies would not otherwise have been aware of, or able to access. Productivity gains achieved within the organization enable EDC to invest in innovative activities, which will effectively create trade opportunities for Canadian companies.

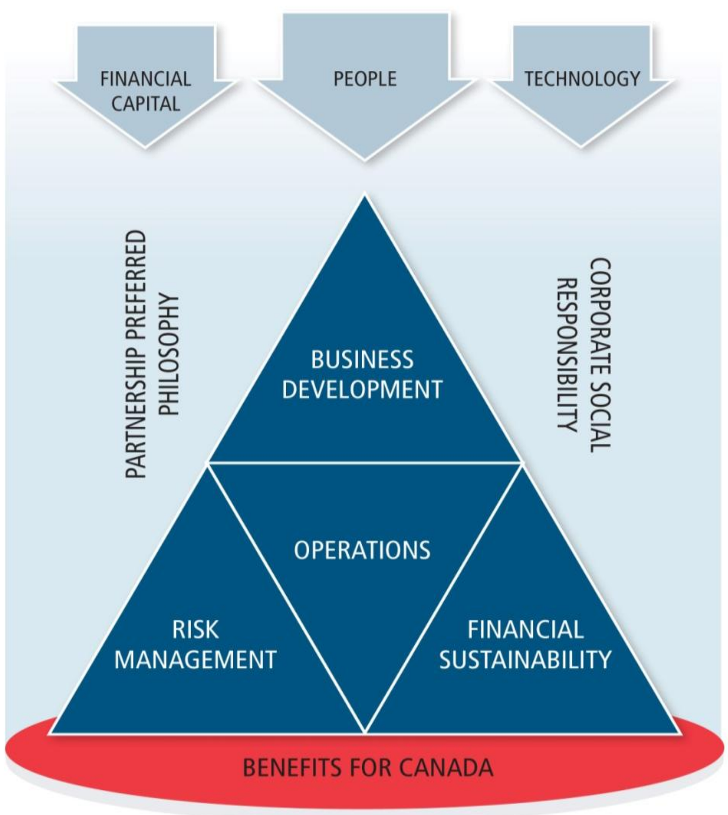
These objectives are supported by the corporation's commitment to financial sustainability. The Business Strategy and Financial Plan will identify areas in which the corporation is exercising additional prudence in managing its operational costs, and demonstrate how the investments it is making in its people, processes and technology will enable the corporation to carry out its activities in an even more efficient manner.

## EDC’s Strategic Framework

Last year, the corporation adopted a new strategic framework which brings together the complex dimensions of EDC’s business. Three strengths enable us to create benefits for Canada: our people and their unique talents, our financial capital and technology. To deploy them in an optimal manner, we must take into account the four dimensions present in everything we do: business development, operations, risk management and financial sustainability. EDC’s decisions are also guided by two overarching commitments: our partnership-preferred philosophy and our commitment to Corporate Social Responsibility.

The following diagram illustrates how, when applied to the four dimensions of the business strategy, the corporation’s high performing workforce, effective leveraging of technology and the prudent deployment of our capital base, generate benefits to Canada.

**Figure 1 - EDC's Strategic Framework**



## 2.2 CREATING BENEFITS FOR CANADA

Delivering benefits for Canada guides all of the corporation's decisions. By facilitating the exports and investments of Canadian companies, EDC helps to grow Canadian businesses, create Canadian jobs and contribute to the economic growth of our country.

EDC delivers value to Canadians through its ability to take on and manage financial risks that often exceed the appetite of other service providers in the industry, particularly where Canadian companies seek to do business in unfamiliar and challenging markets or in new sectors.

Working alongside our public-sector partners, particularly the Department of Foreign Affairs and International Trade (DFAIT) and its Trade Commissioner Service (TCS), is critical to fulfilling our mandate. As a member of the international trade portfolio, EDC is able to leverage its expertise in trade financing and risk mitigation and contribute to the common goal of expanding Canada's international footprint.

EDC continues to strengthen its engagement with its fellow Crown corporations. Building on the ongoing collaboration between the Business Development Bank of Canada (BDC) and EDC over the years, the two organizations signed a protocol in late 2011 to ensure that Canadian companies looking to expand their business in global markets have access to the services and financial capacity that best suits their needs.

Over the planning period, EDC will also continue its efforts to work with the Canadian Commercial Corporation (CCC), Canada's international contracting and procurement agency, to deploy joint solutions to Canadian companies. Regular engagement continues to take place in specific product areas, as well as partnering in key sectors and in markets identified as high potential.

In *Canada's Economic Action Plan* 2012, the government announced its intention to refresh *Canada's Global Commerce Strategy* (GCS) to align trade and investment objectives with specific high-growth priority markets, and ensure that Canada is branded to its greatest advantage within each of those markets. EDC is actively participating in this exercise, and will continue to engage with the government on ways in which it can best contribute to the GCS in order to maximize opportunities for Canadian companies abroad.

## 2.3 OUR OVERARCHING PRINCIPLES

EDC's strategic direction is guided by two overarching principles: our Partnership-Preferred Philosophy and our commitment to Corporate Social Responsibility.

## A PARTNERSHIP-PREFERRED PHILOSOPHY

Whenever possible EDC will use its financial capacity to complement the activities of private-sector financial institutions. It will also seek to collaborate with other public-sector partners where appropriate, with a view to creating conditions that will favour the emergence of private-sector capacity.

By working with other financial service providers, particularly private insurers and banks, EDC ensures that customers have access to the financial solutions and services best suited to their needs. Partnership with the private sector generally means sharing risks on commercial terms, where the availability of private-sector capacity helps to determine EDC's level of involvement. When credit is harder to access, EDC steps up alongside the private sector to provide creditworthy companies with the capacity they need. Similarly, as the private sector returns, EDC's capacity may no longer be needed to the same extent, and consequently will be reduced or withdrawn. However, where significant potential benefits exist for Canada, but private-sector capacity is limited or not available to meet the needs of Canadian companies, EDC will also provide financial intermediation to companies or sectors ahead of the private sector, deploying its expertise in taking risks that other players may not be as familiar or comfortable with. This is especially true in areas such as foreign buyer financing in challenging markets, transactions with longer tenors in specific sectors, and financial solutions for "breakthrough" companies such as those in the Cleantech sector or small business space. In those circumstances, EDC will strive to create conditions that will favvour subsequent private-sector involvement.

In 2011, EDC completed nearly 6,000 transactions in partnership with the private sector. Under its temporary powers in the domestic market, from March 2009 until July 2012, EDC was involved in transactions with 661 Canadian customers: 117 for financing and financial guarantees, 474 for credit insurance and 70 for bonding. All were consistent with our Partnership-Preferred Philosophy.

The integrated and coordinated response to the recession by the global financial community brought to light the many benefits of closer collaboration between public- and private-sector institutions. These benefits will only appreciate as Canadian companies look to expand their business internationally. Looking ahead to 2013 and beyond, EDC remains fully committed to working with the private sector to ensure that Canadian companies have access to the financial solutions and services best suited to their needs.

2011 saw the creation of the Lending Practitioners' Forum, a joint consultative body with Canada's private financial sector, chaired by the Canadian Bankers Association. This forum is made up of senior executives from seven Canadian banks, EDC and its sister Crown corporation, BDC. This forum helps to build partnership between organizations by identifying the opportunities and challenges seen in the market, and fostering a consistent and open dialogue around strategic issues affecting the field of trade and international finance. EDC will continue to strengthen its relationship with the banking sector through this forum.

Canadian financial institutions are among Canada's largest exporters and foreign investors. EDC will continue to enhance its solutions dedicated to helping Canadian financial institutions be competitive and manage their risks in emerging markets.

In the insurance sector, EDC will continue to be an active participant in the Credit Insurance Advisory Group (CIAG), a Government of Canada-led initiative. Involvement in the CIAG is one of the most important ways EDC maintains and grows its partnership with private-sector credit insurers.

Building on the positive experiences of EDC's deployment of domestic insurance and export supplemental insurance in the wake of the credit crisis, the corporation is looking to develop a more proactive partnership-driven credit insurance solution to bring more capacity to the credit insurance space for the benefit of Canadian companies. This initiative will enhance EDC's facilitation of Canadian trade by offering capacity and underwriting to private insurers to be deployed among their customers.

## A COMMITMENT TO CORPORATE SOCIAL RESPONSIBILITY

EDC strives to meet the expectations of Canadians to act as a good corporate citizen, upholding Canada's values both at home and abroad while ensuring that Canadian businesses benefit from international business opportunities. As such, Corporate Social Responsibility (CSR) is the second overarching principle guiding our strategic direction.

CSR is a particular focus of the corporation's India Infrastructure Initiative. Through the 2013-2017 planning period EDC will continue to participate in infrastructure projects which meet the corporation's standards of CSR performance and generate benefits to Canada. Prior to developing this initiative, EDC conducted in-depth due diligence, including in market, of the CSR risks inherent to doing business in this market. EDC concluded that we can do meaningful business in the market without compromising our standards, providing we follow strict discipline, particularly in choosing our partners and counterparties.

Over the planning period, EDC will continue to engage with its public- and private-sector partners to keep pace with evolving CSR standards. This will include promoting the consistent implementation and application of the International Finance Corporation's (IFC) Performance Standards to ensure a level international playing field for Canadian companies, and continued engagement through EDC's membership in the Steering Committee of the Equator Principles (EP) Association. EDC is the first export credit agency and the first Canadian financial institution to be represented on the committee of the EP Association, a financial industry benchmark for determining, assessing and managing environmental and social risk in project financing. This will also include EDC's implementation of the revised Organization for Economic Co-operation and Development (OECD) 2012 *Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence* (the "Common Approaches") and continued involvement with our ECA peers throughout the planning period to improve common practices, develop guidance and promote a level playing field.

In addition, EDC will focus on creating greater transparency with respect to CSR processes. In 2012, the corporation undertook efforts to increase the public's understanding of our CSR reviews, including the publication of a guide on EDC's review of environmental and social impacts in project financing transactions. As well, our 2011 CSR Annual Report described how we undertake CSR reviews in corporate financing transactions. These activities, which promote transparency of our internal processes, will continue through the planning period.

Lastly, EDC will continue its efforts to raise awareness among Canadian exporters about the risks of corruption and bribery in international markets. Through this engagement, EDC uses its expertise to help exporters identify and implement ways to strengthen due diligence procedures and anti-corruption programs, thereby better protecting themselves from corruption risk when operating abroad.

## 2.4 INVESTING IN OUR STRENGTHS

Our resources are our strengths. In order to help Canadian businesses take advantage of global trade and investment opportunities and generate benefits for Canada, EDC will continue to invest in its people and its technology, while prudently managing its financial capital. These three strengths together play a fundamental role in EDC's ability to adapt to change in the face of unforeseen events.

### A FOCUS ON PEOPLE

The corporation's overarching people strategy over the planning period is to anticipate the people risks that could prevent EDC from achieving its business priorities and have the right resources in place to achieve these priorities.

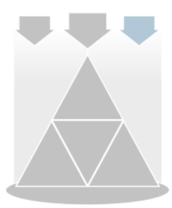
EDC competes for talent in a tightening labour market for highly skilled knowledge workers which are increasingly diverse, distributed and operating in an increasingly borderless world. The corporation is developing a rigorous and sustainable workforce planning program to ensure that EDC continues to have the right people with the right skills in the right place at the right time. Elements of this program will include a workforce assessment and planning process which differentiates according to the roles that drive EDC’s business, and a process to ensure that the corporation maintains the right balance of strong technical skills and behavioural competencies.

EDC will also seek to leverage internal productivity gains of 1.5% annually by utilizing the talent and expertise of its resiliency pool of employees. Launched in 2012, the resiliency pool redeploys talented employees to focus on key challenges, such as trade creation opportunities or high priority projects. This initiative enables EDC to work smarter, develop individual and organizational resiliency and create capacity for when and where demand is heaviest.

Financial sustainability is another key component of effective workforce planning. With this in mind, EDC introduced a defined contribution component to EDC’s pension plan for all new employees in January 2012, reducing future pension funding volatility while maintaining an attractive and competitive total compensation offering for employees. EDC is also participating in the Crown corporation pension plan review launched recently by Treasury Board Secretariat. In addition to participating in this review, EDC will continue its own efforts to ensure the general alignment of its pension plan with publicsector plans.

Finally, over the planning period, EDC will continue efforts to ensure the diversity of experience and perspectives within its employee population in order to enhance employee engagement, foster innovation and create a more global mindset. Efforts to increase the overall level of bilingualism and a focus on the development of women in leadership will also continue to be priorities for the corporation.

## LEVERAGING TECHNOLOGY FOR SUCCESS



EDC’s information technology (IT) is a critical component which allows us to meet our mandate of delivering timely financial and risk management solutions to our customers. EDC’s IT systems, which support our business platforms, need to be secure, efficient, flexible and well aligned with the corporation’s plans and activities. This makes investments in technology, both in terms of capital and operating expenses, a top priority for the corporation.

In order to promote continuous improvement of our service offering, as well as to address future technology obsolescence, the corporation has undertaken a multi-year program to modernize our key business systems.

This program will modernize EDC’s proprietary business applications and systems architecture, which are specifically designed to meet the needs of Canadian exporters. The key objectives of this modernization effort are to improve our core transacting systems to more flexibly meet evolving customer needs, to improve web access to EDC services for our customers, to enable cross-functional team collaboration in support of our service levels and productivity and to provide employees with better access to the information required to make timely decisions. A particular focus on our investments in technology will be our ability to serve a broader range of small business customers through the web. Additionally, EDC will continue to find opportunities to collaborate with our partners across government and share common technologies and technology solutions when possible.

Modernizing our legacy business systems will require an increase in our level of capital investments and will continue to be a significant draw on internal resources and operating costs over the planning period.

### MANAGING OUR CAPITAL BASE

EDC's Capital Adequacy Policy (CAP) supports the Business Strategy by ensuring that the corporation has adequate capital to meet the demands of its current and future business, while maintaining its ability to withstand future, unpredictable risks. The policy also provides for the return of excess capital over time to the Government of Canada via dividends.

As noted in the 2012-2016 Corporate Plan, EDC has been engaging in discussions with the shareholder on potential updates to the CAP to ensure that it maintains a sufficient capital base to meet the needs of Canadian businesses over the long term. Under this policy, EDC has paid $1.45 billion in dividends to the government over the last five years, partially offset by a capital injection of $350 million in 2009 as part of the government's response to the financial crisis.

Capital management is an increasingly important focus for financial institutions around the world in light of economic turbulence together with increased regulation of financial markets and financial institutions. EDC is affected by these same trends, and in addition takes on larger exposures for longer tenors in various industry sectors in response to the needs of Canadian exporters. As a result, EDC has reviewed the CAP in light of these developments.

## 2.5 THE FOUR CORE DIMENSIONS OF EDC'S BUSINESS

The following sections profile the most significant initiatives planned by EDC for 2013-2017 in order to meet its strategic objectives of trade facilitation and trade creation, with a focus on productivity gains. Importantly, although initiatives have been grouped according to the dimension of EDC's business with which it is most prominently associated, all of the activities profiled in the Business Strategy are considered through the prism of all four dimensions.

## THE BUSINESS DEVELOPMENT DIMENSION

The success of Canadian businesses is at the core of EDC's activities. Our work over the planning period is focused on building our core activities to help companies access opportunities and overcome challenges they face in a changing and diverse global environment.

### Facilitating and Creating Trade

Over the past several years, EDC's operational model for business development has matured beyond following our customers' business through conventional account management, towards increasingly bringing market opportunities to customers as these opportunities emerge. More and more, this means going beyond our financial and risk mitigation solutions and proactively looking for trade opportunities which might not otherwise be known or accessible to the exporter. As introduced in the 2012-2016 Corporate Plan, EDC is making progress on its trade creating tools, bringing new global opportunities to Canadian companies.

*Pull Facilities*

Canadian companies often do not have the size and international visibility required to be included in the procurement plans of large foreign buyers. Through its participation in financing facilities for certain targeted foreign companies, EDC is able to create opportunities for Canadian suppliers. Whether through corporate or project lending, the financial capacity EDC provides is leveraged to raise awareness of Canadian suppliers and seek to influence the foreign buyer's procurement decisions and "pull" exports from Canada. This allows EDC to promote Canadian suppliers to foreign buyers and promote the development of future exporting opportunities.

Establishing a close relationship with foreign buyers is essential to understand their current and future needs and identify Canadian exporters that can specifically meet these needs. As this relationship strengthens over time, foreign buyers tend to purchase more from Canadians than the amount of the original loan. EDC works closely with the Department of Foreign Affairs and International Trade, specifically the Trade Commissioner Service and the Sector Practices, to identify market opportunities for Canadian exporters.

Over the planning period, EDC will focus on facilitating "Pull" facilities with companies in emerging markets, in order to better connect Canadian companies with business opportunities in South-South trade flows.

*Protocols*

Foreign multinationals with operations in Canada provide an important contribution to Canada's economy. Many have large employment levels, sizeable investments and annual expenditures that add to Canada's GDP. More generally, the foreign multinational's activities in Canada will often be part of the company's overall value chain. This is the case, for example, when Canadian operations conduct R&D that is used by the parent company or its affiliates based outside of Canada. Foreign multinationals present in Canada may also have strong export levels and their parent or non-Canadian affiliates may source goods and services from Canadian companies, which constitute additional export trade from Canada.

To encourage this trade and to bring global supply chains closer to Canadian companies, EDC undertakes agreements – or Protocols – with foreign multinationals. Under these Protocols we leverage our financial capacity to influence foreign multinationals to grow their exports or procurement from Canada, as well as their R&D expenditures and Canadian investment levels.

*Targeted Trade Connections (or "Matchmaking")*

As a necessary complement to Pull facilities and Protocols, EDC leverages its relationships with these key foreign buyers to introduce them to competitive Canadian suppliers, something that is very challenging for many of these smaller Canadian businesses. Working closely with our government partners, in particular the TCS, EDC also participates in foreign missions to connect Canadian suppliers with targeted foreign buyers. EDC also conducts "reverse trade missions," where selected foreign buyers are introduced, in Canada, to Canadian suppliers whose capabilities match the foreign buyers' procurement requirements.

EDC is able to enhance business opportunities for Canadian companies by connecting them to significant business relationships and partnerships by means of EDC's network of international equity funds. By participating in international equity funds, EDC is also able to gather market intelligence and identify opportunities at the grassroots level, enabling Canadian companies to seize these opportunities the moment they arise. This "connect strategy" serves as EDC's primary focus in choosing equity funds.

Over the planning period, EDC will seek to further leverage this strategy, selecting funds in areas which play to Canada's existing strengths and present the greatest growth potential for Canadian industries.

*Canadian Direct Investment Abroad*

More and more Canadian companies are investing in foreign affiliates to better respond to the needs of a global clientele. EDC estimates that one in ten small- and medium-sized Canadian exporters currently have some form of physical presence overseas, such as a plant, a warehouse or a sales and distribution office.[2] This overseas investment is referred to as Canadian Direct Investment Abroad (CDIA).

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

- Loans and guarantees to help finance investment abroad, and to support the activities of foreign affiliates;
- Political Risk Insurance to protect their international investments; and
- Accounts Receivables Insurance to help manage the risks of selling abroad.

There are multiple benefits to making these foreign investments, including increasing access to key customers and markets, more cost-effective production facilities, and new partnerships through global and regional supply chain networks. Canadian companies operating abroad today are generating about the same level of sales from foreign operations as they are from export sales from Canada. According to Statistics Canada, Canadian foreign affiliate sales grew at twice the rate of Canadian exports over the past decade, with sales originating in emerging markets nearly tripling during this period. Recent data however indicates that this trend has softened in the last two years, underscoring the importance to maintain efforts in helping Canadian companies establish and grow their presence abroad.

*Foreign Direct Investment in Canada*

In today's world of integrative trade, foreign direct investment (FDI) in Canada not only leads to increased domestic economic activity, it enables Canadian firms – particularly small and mid-market companies – to integrate into international supply chains and provides opportunities to become known in markets and by customers they might not otherwise reach.

Alongside the work of its partners in government, EDC is involved in FDI-in activities through the provision of access to financing. EDC's financing capacity can help to strengthen Canadian capabilities and position Canada as a major global player in these growing sectors. FDI-in also provides increased financial capacity within the country which will strengthen the competitiveness of Canadian companies, resulting in greater exports.

### Creating and Facilitating Trade in Emerging and Developed Markets

The most remarkable recent change to global trade patterns has been the rise of trade and investment in and among emerging economies. Almost 40% of world trade is conducted by developing countries and it is estimated that roughly 43% of this number can be categorized as South-South trade.

In addition to the use of its trade creating tools to integrate Canadian companies into South-South trade flows, EDC is also seeking ways to assist Canadian companies in developed markets which are already integrated into South-South trade corridors as a way to help these Canadian companies integrate into South-South supply chains..

[2] Estimate based on EDC's Trade Confidence Index Survey, conducted during the Spring and in the Fall of 2012

EDC is actively entertaining closer relations with internationalized Canadian financial institutions that have demonstrated their intent of leveraging South-South trade growth. It is believed that increasing involvement with Canadian financial institutions with emerging market footprints can positively contribute to facilitating Canadian CDIA and foreign affiliate sales.

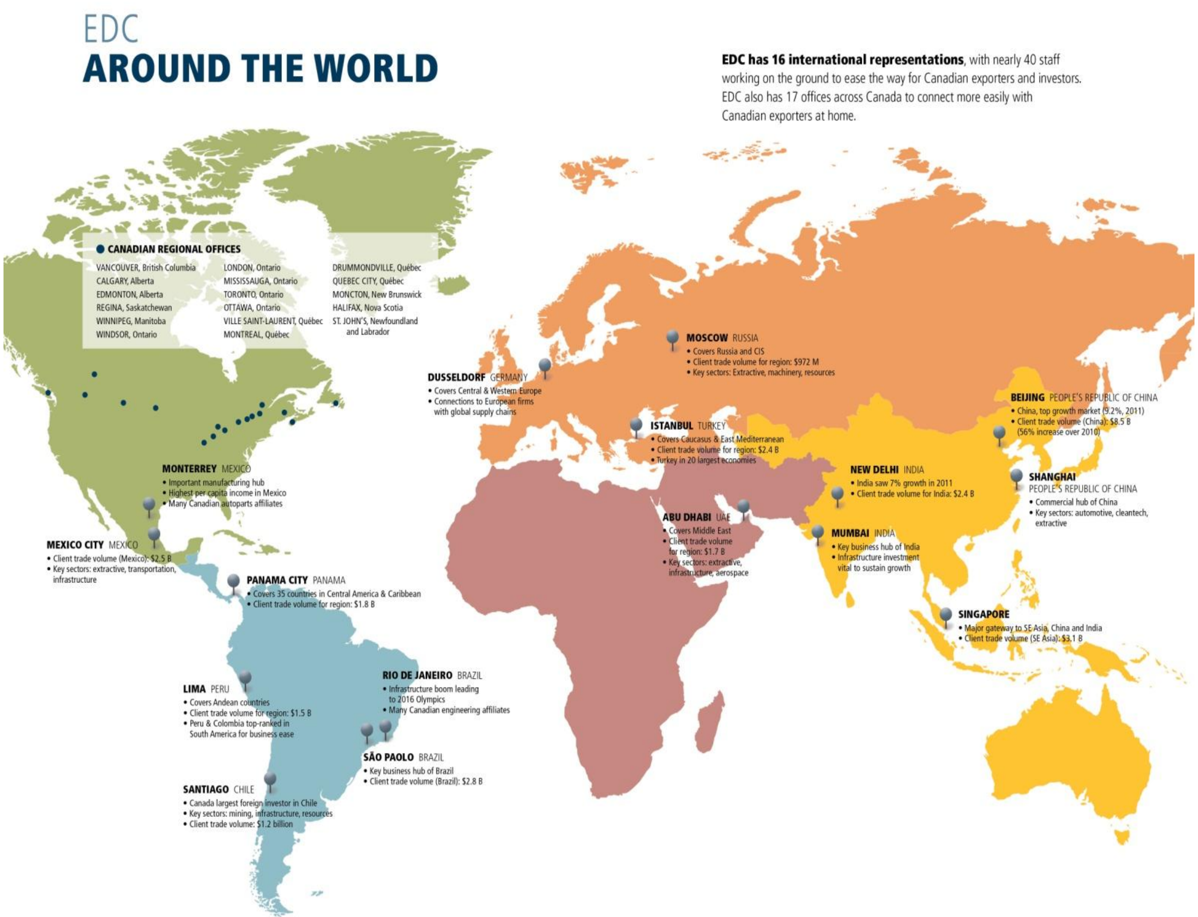
*Partnering with the International Finance Corporation*

Over the planning period, EDC will deepen its relationship with the International Finance Corporation (IFC) to better connect Canadian exporters to opportunities in emerging markets. In 2012, EDC signed an agreement with the IFC aimed at expanding its partnership to facilitate Canadian companies' investments in emerging markets. The agreement will leverage each other's strengths and capabilities in emerging market projects, with a focus on infrastructure and clean technology (Cleantech) sectors. Canadian companies are able to tap into opportunities with IFC's customer base of large multinational companies, emerging market governments and investment companies, as well as benefit from its on-the-ground networks in emerging markets.

EDC also continues to engage with its international counterparts, including Export Credit Agencies (ECA), within the G11 forum and at the OECD. As the OECD Export Credit Group and Participants to the Arrangement turn their attention to level playing field issues, EDC will continue to participate in discussions on export credits within, and external to the OECD forum, which could have a significant impact on how Canada provides export credits to businesses across a number of sectors.

### Getting Closer to our Clients Abroad

EDC's on-the-ground representations in markets around the world, its research on global economic trends and its ability to identify efficiencies through effective supply chain management, contribute to the success of Canadian businesses. EDC's network of foreign representations helps deepen its relationships with local buyers and borrowers, and provide on-the-ground market information and intelligence to Canadian exporters and investors. Understanding the financial and procurement needs of local borrowers and buyers helps EDC to identify opportunities for Canadian supply and investment, and offer market-specific financial solutions that benefit Canadian companies.




The TCS is central to the Government of Canada's global trade presence. EDC and the TCS play different complementary roles in promoting international trade, and share a common goal of facilitating the success of Canadian exporters and investors. The TCS' efforts to open markets, secure access and promote Canadian interests inevitably contribute to EDC's pipeline of leads, opportunities and transactions. Likewise, EDC's ability to structure a transaction or to assist Canadian businesses in managing their risks and securing financing for their operations can help crystallize the TCS' trade development efforts into specific transactions.

In order to strengthen Canada's trade capacity and effectively promote Canadian exporters, it is essential that knowledge of each other's organizations is developed and promoted. Building on existing collaborative achievements, EDC will continue to work with the TCS on key initiatives in Canada and around the world over the planning period with the common goal to increase Canada's trade capacity:

- Overseas, EDC will continue building its relationships with the TCS in markets where EDC has a presence and beyond. Greater sharing of information and matchmaking will be two areas of focus. For example, EDC will leverage strong partnerships with the TCS to widen EDC's reach in markets and collaborate closely on matchmaking activities.
- Training opportunities for the TCS on EDC products and services will remain an important part of this collaboration. This will be accomplished through our annual on-site training and further facilitated with EDC's online training modules.

In 2013, EDC will develop a bilateral MOU with DFAIT that seeks to clarify responsibilities and deepen existing collaboration with the TCS in order to optimize service delivery to Canadian companies.

As it considers future opportunities to expand its international footprint, EDC will continue to engage with DFAIT on how to position itself to effectively serve Canadian companies in markets around the world, including how best to apply its ability to open foreign offices outside Canada's consular and diplomatic network, further to 2010 amendments to the Export Development Act. The process will involve identifying markets and locations with the greatest potential for Canada. The nature of services needed in-market in order to effectively convert business opportunities for Canadian companies will need to be assessed to determine whether delivering such services is best achieved with a location within Canadian missions.

### Trade Creating Initiatives

EDC's 2012-2016 Corporate Plan highlighted three major initiatives in the area of trade creation that remain a priority for the corporation throughout the planning period. These initiatives represent areas of significant potential growth for Canada, in which EDC is taking on higher levels of risk in order to maximize opportunities for Canadian exporters and investors. The following section reviews their progress and objectives in 2013 and beyond.

*Preparing for a New Chapter in Canada's Aerospace Industry*

Canada's aerospace sector spans the country, with companies of all sizes competing successfully worldwide, both directly and as part of larger supply chains. The Canadian aerospace sector consists of more than 500 companies in eight provinces across Canada, with total sales of $22.4 billion in 2011 and directly employing 37,000 workers. With over 75% of revenues from exports, it is one of the most export intensive industries in Canada. As the aerospace sector grows in depth and diversity, EDC will continue to be present alongside its players, large and small, facilitating their trade and helping them create new opportunities.

EDC is preparing to provide buyer financing for the early years of the CSeries, a pivotal, industry-shaping technology for the Canadian aerospace sector. EDC is continuing to engage with both confirmed and potential CSeries customers and creating a pipeline of commitments to be deployed when aircraft are ready for delivery. EDC will look at every opportunity to bring in private-sector capacity, if and when it becomes available. EDC will underwrite all transactions according to the OECD's Aircraft Sector Understanding (ASU).

The development of the CSeries is a critical opportunity for aerospace companies all along the supply chain and across Canada to move to the forefront of the global industry. It will help them remain in Canada, invest in such areas as new composite material fabrication, and develop state-of-the-art technology that will keep them at the forefront of design and sustainable innovation, effectively positioning them to serve not only the CSeries, but other leading players in the aerospace industry.

Beyond the CSeries, EDC will continue to work with other Canadian aerospace industry subsectors, such as helicopters and flight simulators, for which international prospects appear bright over the planning period.

*Helping Canada Achieve Success Globally in Clean Technology*

Clean Technology (Cleantech) is a global opportunity that responds to a demand for technologies that reduce negative environmental impacts and allow for a more efficient use of the earth's resources. Canada has an active Cleantech sector with over 700 companies, of which many are well positioned to become global leaders in their area of expertise. EDC's participation in this sector is aimed at propelling Canadian exporters even further as global demand for Cleantech products and services grow.

EDC has been developing partnerships with leading organizations such as Sustainable Development Technology Canada (SDTC), Cleantech-focused venture capital firms, private equity firms and financial institutions. EDC's collaborative agreement with SDTC signed in 2012 is designed to advance Canada's success in the Cleantech sector internationally. Under the terms of the agreement, EDC will seek to provide financial intermediation across its range of products to SDTC portfolio companies that are considered ready for commercialization, while SDTC will share with EDC its assessment of technology and performance risks. EDC will also look for opportunities for SDTC companies within its network of foreign buyers and top global corporations.

Working with the Department of Finance, DFAIT, Environment Canada and Natural Resources Canada, EDC played an active role in the negotiations pertaining to the OECD Climate Change Sector Understanding (CCSU), which Canada adopted in 2012. The CCSU extends the scope of the current Renewable Energy and Water Sector Understanding (which is part of the OECD Arrangement on Export Credits) to a number of new industries and technologies in the Cleantech area. Moving forward, EDC will explore the feasibility of expanding credit support for eligible sectors under the CCSU in order to help more Canadian Cleantech companies overcome the high upfront costs associated with acquiring their technology.

A component of EDC’s Cleantech strategy is a targeted approach to higher risk transactions, recognizing that many promising Cleantech companies which are at the demonstration stage with their technologies may be considered to be high risk by banks or insurance companies..

Over the planning period, EDC will continue to deepen its understanding of the sector, developing the right tools and solutions to contribute to Canadian Cleantech companies’ success in international markets. EDC will broaden its focus from early-commercialization firms to include the strategic goals of more established firms, concentrating on additional areas of opportunity for the Canadian Cleantech sector, including focused approaches to international markets and targeting of international strategic players that have clean technology needs. EDC will also concentrate on specific emerging markets that offer a critical mass of opportunities for post-demonstration stage Canadian Cleantech companies.

EDC’s long-term vision for the Cleantech sector is to help grow smaller companies into larger ones. As Cleantech companies grow and are successful, EDC will look to transition its service offering from working-capital solutions to vendor financing or hybrid corporate/project finance responses, to help Cleantech companies (which often have a capital-intensive business model) grow their sales through completion of commercial scale projects in various foreign markets.

*Targeting India’s Infrastructure Boom for Canadian Companies*

EDC has successfully helped Canadian companies of all sectors do business in India since establishing a local market presence in 2005.

With more than $1 trillion in infrastructure spending planned for the next five years, India represents a market that Canada cannot afford to ignore. Opportunities exist to more effectively deploy EDC's financing and bonding solutions in India, as the country embarks on significant plans to modernize its infrastructure. The objective of EDC’s India Infrastructure Initiative is to facilitate access for Canadians exporters and investors to opportunities created by India’s infrastructure development plans. The cornerstone of this initiative is to selectively deploy project financing to infrastructure projects which have the potential to source from Canadian companies and investors. Concurrently, we will provide any required direct service to those Canadian companies, to help them capitalize on these opportunities.

To ensure that this initiative continues to progress, concurrent deployment of resources will continue towards a more aggressive outreach program with identified customers who want to penetrate the market, but have not yet done so. To date, EDC is aware of 300 Canadian companies who currently have a presence in India, as well as many others who are interested, but have yet to enter the market. A program will be established to prioritize these customers according to their ability to act as supply chain anchors, and catalyze additional Canadian benefits. Further, efforts will be focused on better coordinating our India Infrastructure Initiative with that of other Government of Canada agencies, so that resources may be pooled and coordinated to achieve a more Canada-branded approach.

## THE OPERATIONS DIMENSION

The operations dimension focuses on EDC's strategy to deliver high quality products and services to Canadian businesses, as well as the continuing deployment of Lean principles and investments in systems which will make EDC more efficient and responsive to the changing needs of Canadian businesses in the currently volatile economic environment.

### Overview of EDC's Financing and Insurance Solutions

EDC delivers its financing and insurance solutions efficiently and effectively on commercial terms, focusing on its mandate and key competencies to ensure we add financial capacity to the market where it is needed and deliver value to our customers. EDC's solutions fall under four product groupings:

- Financing: Through EDC's financing products, Canadian companies are able to access more working capital, allowing them to successfully compete in the global marketplace and to offer buyer financing when competing for export contracts. EDC's Export Guarantee Program (EGP) allows small businesses to increase their working capital by providing an EDC guarantee directly to their bank, enabling the bank to lend more. Larger customers in the Commercial Markets space also benefit from the EGP and other commercial guarantees to banks, as well as from direct lending solutions to the exporters or their customers to facilitate export sales. Finally, EDC's large strategic customers utilize direct lending solutions and guarantees as well as EDC's participation in their corporate facilities. On the equity side, EDC provides growth capital through private equity investments to enhance the growth of small and medium Canadian enterprises (SMEs), focused on exporting, international expansion and/or developing international affiliations. EDC's participation in equity funds also helps connect Canadian companies to emerging international business opportunities at a grassroots level.

- Credit Insurance: EDC provides Canadian companies with Accounts Receivable Insurance (ARI) in order to help them mitigate credit risk and gain access to additional working capital with their financial institutions. ARI helps Canadian exporters and their foreign affiliates offer buyers more flexible payment options, which enhance their competitiveness.
- Contract Insurance and Bonding: EDC's bonding products are used by companies to access capacity with sureties and banks that issue guarantees to buyers, regulatory authorities and suppliers. EDC also offers exporters and their affiliates contract-related insurance products to mitigate various financial risks.
- Political Risk Insurance: Political Risk Insurance provides peace of mind to companies and their financial intermediaries that their overseas assets will be insured should unpredictable political events adversely impact their foreign operations.

In addition to its core export activities, EDC continues to provide complementary solutions to Canadian companies for their trade-related domestic financing needs. In response to the credit crisis, the government temporarily suspended the corporation's domestic financing regulations in March 2009 to provide additional flexibility for EDC to respond to the financing needs of Canadian companies while remaining focused on international trade-related business. This temporary flexibility has been extended until March 2013.

## Looking Ahead in 2013

As part of its commitment to continuous improvement, EDC is working to expand on successful products and services as well as develop new ones that meet the changing needs of our customers.

*Enhancing Customer Experience for Selective Cover Insurance*

In order to deliver better solutions to Canadian exporters, EDC is implementing an enhanced selective cover accounts receivable insurance product. "Selective" accounts receivable insurance enables the exporter to select specific contracts, buyers or markets for which insurance coverage can be obtained with EDC, rather than insure all their accounts receivables.

EDC currently has three direct offerings of selective coverage – Single Buyer Insurance, Contract Frustration Insurance, and Named Buyer Accounts Receivable Insurance - underwritten by a number of teams throughout the Credit Insurance and Contract Insurance and Bonding product groups, each with their own separate online systems and processes. Based on the corporation's current portfolio of selective coverage products, opportunities were identified to reduce cycle times, improve service delivery and provide more predictable coverage.

A new service offering for selective coverage has been designed which will significantly improve EDC's customers' experience, including a fully integrated and largely automated design, an interactive application form, a new policy and supporting documentation.

*Serving Canadian Small Exporters*

As discussed in the Planning Environment, EDC's service offering for Canadian small business exporters is an important part of fulfilling our mandate.

The small business segment, defined by the corporation as companies with under $10 million in annual sales, is EDC's largest, as expressed in number of customers, typically accounting for 50-55% of the corporation's customer base. While the majority of these companies are served under EDC's Accounts Receivables Insurance program, Canadian small business exporters and their bankers also benefit from EDC's bonding and guarantee solutions, as well as from our Pull transactions.

EDC's Accounts Receivable Insurance and bonding solutions are used by companies to address both risk mitigation challenges and to maintain existing and access additional working capital. EDC also works closely with its bank partners through its Export Guarantee Program (EGP) in order to bring greater financing capacity to the market. The EGP facilitates a broad range of small business financing needs, including general working capital, pre-shipment financing, equipment financing, and financing for CDIA.

> Investments in innovation are critical for Canada to enhance its trade capacity, particularly for companies in the small business space. EDC can play a valuable role in spurring innovation by helping Canadian companies access private equity.
>
> EDC's Equity program provides growth capital private equity investments both directly and through Canadian and foreign equity funds to enhance the growth of small and medium Canadian enterprises (SMEs), particularly those which involve exporting, international expansion and/or developing international affiliations.

Through the EGP, the corporation enhances credit capacity for small businesses and provides a structure that encourages the private sector to use this capacity, by EDC often taking a larger share of the risk and a less-than-proportional share of the return.

Beyond responding to the need for financial intermediation, EDC complements the work being done by the TCS and other partners to address the network and information challenges that currently exist for small businesses. The corporation has selectively engaged in matchmaking activities, which bring together Canadian companies (many of them small businesses) and potential foreign buyers. In addition, EDC disseminates information on a wide range of topics related to international trade through its publications, website and through our Account Managers and Underwriters responsible for serving Canadian small businesses.

Looking ahead, the corporation is exploring how it can further refine the current approach such that EDC optimizes its impact on this segment. The objective is two-fold: broaden our off-the-shelf offering to this segment at large in a cost efficient manner, notably by leveraging technology, while providing more customized solutions to high-potential small exporters.

As we implement this approach, we will also look at innovative ways to stretch our capacity in favour of small business exporters. We will for instance, consider ways to leverage the value of their Intellectual Property in order to optimize their access to capital. If necessary, EDC will also participate in small business transactions without the private sector in higher risk scenarios, and will continue to offer its solutions to small business exporters until they are able to access capital from private financial institutions.

In support of these objectives, EDC will further stratify its approach to the small business segment. First, in order to help those companies who either require a “lower touch” or who are more reactive to export opportunities, the corporation will be making investments in its online capabilities in order to develop a more relevant and effective platform for serving its customers. This will be of particular benefit in the credit insurance space where many customers are seeking greater flexibility for self-service and automation.

EDC is also making significant technological investments so that we can broaden our service offering to a larger segment of the small business population in an efficient manner, allowing us to focus our customized services on high-growth small businesses which need our expertise.

At all times, the corporation will continue to work closely with its partners so that Canadian companies are effectively able to leverage the breadth of Canada’s international trade expertise. An important element of this stratified approach will be the corporation’s ability to connect Canadian companies to those players best suited to respond to their needs. In this regard, the corporation’s protocol with the BDC and its role as a member of the Government of Canada’s international trade portfolio (along with DFAIT and CCC) will be important drivers of success.

*Financial Intermediation within the Basel III Framework*

As noted in the Planning Environment, EDC is currently exploring how it can refine its financing solutions within the new Basel III framework, focusing on areas in which it can deliver the greatest value for Canadian exporters, through or alongside their private financial providers.

As higher capital requirements make it more expensive for banks to provide direct lending, borrowers are expected to have greater difficulty accessing financing. EDC is reviewing how it could help address this challenge by providing financing to Canadian exporters and foreign buyers either directly or on a co-lend basis with private-sector financial partners. Similarly, EDC is exploring ways to make its guarantees more affordable for Canadian companies.

As banks seek to find lending partners to form bank syndicates or club deals for longer tenor financings, EDC is increasingly approached to participate in transactions, particularly as a potential replacement for banks exiting facilities at time of renewal. In situations where the risks are considered to be manageable and where benefits to Canada are generated, EDC will participate in such transactions on a case-by-case basis.

### Delivering Value through Technology Integration

As the planning environment evolves, it is critical that EDC maintain its productivity and resiliency in the face of uncertainty in order to meet the needs of its customers and facilitate trade. A large part of this productivity and resiliency comes from leveraging new technologies to enhance its business delivery.

As noted earlier EDC is in the process of modernizing much of its IT infrastructure. Older legacy systems are being incrementally retired over the course of the planning period and are being replaced with newer, more adaptable systems and business processes which are specifically designed to meet the needs of Canadian exporters.

*New Business Platforms Supported By Modernized and Flexible Systems*

EDC is in the process of replacing the primary systems which support our core underwriting business in both financing and insurance. This modernization program is required to upgrade these systems to more flexibly meet customer needs as well as to enable internal productivity and collaboration. EDC recognizes that the complexity of this modernization program represents new and additional risks and has established program governance and oversight appropriate to the scale and risk of this undertaking. We have created a new group, Business Solutions and Innovation, which brings together under executive leadership our expertise in technology, business process management, lean principles and business intelligence. We have also established an independent Enterprise Portfolio Management Office which reports to the Executive team and will ensure proper management of a portfolio of interrelated projects being developed in parallel. The modernization program will have executive sponsorship and oversight, as well as incremental Board member oversight dedicated to guiding this program.

*Developing an Enhanced Web Presence*

In today's rapidly evolving world of information technology, Canadian companies are becoming increasingly tech-savvy and demand greater access to online resources from their financial service providers. In response to this demand, EDC's external website

(EDC.ca) was redesigned in 2011 to offer a more interactive, relevant experience with more efficient content management. We anticipate continuing to evolve our web based resources available to customers over the planning period, with a focus on leveraging online tools to broaden our reach to small business exporters.

In particular, in concert with the modernization of our insurance and financing underwriting applications, we plan to enhance EDC's customer and partner transaction portal, EDC Direct. Specific objectives include enhancing the level of transacting which customers can conduct with EDC via accessible web services, increasing reporting to customers on their business activities with us and better supporting their access to EDC through mobile devices.

*Ensuring Reliable and Accessible Information*

Easy access to reliable company data is essential for EDC staff to maintain a high level of service to our customers. It is critical that EDC's company data be well defined and properly governed while adhering to information security and privacy policies.

Therefore, we are improving our company data management system to reflect current best practices for enterprise data management. This project entails replacing the system by which key company data is managed on an enterprise-wide basis, as well as enhancing the governance rules which ensure that the quality of this data is maintained over time. This investment will improve the customer experience, enable business intelligence analytics and strengthen risk management within the corporation by ensuring a comprehensive and consistent enterprise-wide picture of our interactions with each individual company.

EDC's information systems are secured against rapidly evolving threats that have the potential to impact the confidentiality, integrity, availability, intended use and value of the information. To defend against these threats, an IT Security policy and Internet/E-Mail policy are in place, which respond to changes in threat conditions and support the continuous delivery of services. EDC applies baseline security controls and additional controls on an ongoing basis as identified and required through regular threat and risk assessments.

## THE RISK MANAGEMENT DIMENSION

Risk management is at the heart of EDC, as our business activities expose us to a wide variety of risks. EDC's ability to adequately manage these risks is a key competency within the organization, supported by a strong risk management culture and effective policies and processes. This has enabled the corporation to continue deploying its lending and insurance solutions to Canadian companies throughout the business cycle, and ensured that we can withstand adverse events and trends, predictable or not.

### Enterprise Risk Management

At EDC, we manage risks by seeking to ensure that business activities and transactions provide an appropriate balance of return for the risks assumed. EDC's risk appetite is collectively managed throughout the organization, through adherence to our Enterprise Risk Management (ERM) Framework. This framework gives us an overall view of potential risks EDC faces and forms the foundation for appropriate oversight and governance.

Effective risk management is a key component of maintaining EDC's ability to respond to the needs of Canadian exporters and stretch in higher risk situations. Our risk governance structure emphasizes and balances strong central oversight and control of risk with clear accountability for, and ownership of, risk within each business unit. This structure facilitates the flow of information between the business units, the members of the Executive Team, who represent each significant businesss unit, the President and Chief Executive Officer, and the Board of Directors who provides corporate oversight.

In 2012, EDC created an integrated Enterprise Risk Management group under executive leadership, elevating the critical importance of identifying, understanding, preparing for and mitigating the multitude of risks to which we, and our business, are exposed. This includes: credit, market, financial and operational risks.

Also in 2012, an independent external assessment of the current status of EDC's ERM practice determined that EDC has a strong risk culture, in terms of planning, managing and controlling the market and credit risks faced by our business. However, the assessment identified that operational risk management, risks that arise from people, systems and processes, and external events, could be strengthened.

EDC will be proposing enhancements to EDC's ERM architecture with the goal of creating a roadmap on how to fill defined gaps in its current risk management system. Refinement and ratification of the roadmap will likely take place through the first half of 2013 with implementation to follow in late 2013 or early 2014.

During this process, we anticipate addressing several needs, including clarity around risk appetite and tolerances, Board oversight and governance, alignment of risk identification and assessment processes with EDC's business units and corporate objectives, and a centralized and readily accessible register of risks. Through this process, EDC will look to other financial institutions and industry experts to gain insights from their perspectives and experiences. In addition, engagement with EDC's Board of Directors and internal education on ERM will continue.

Credit risk is a central component of ERM at EDC. We are exposed to credit risk under our loans and insurance programs, and our treasury activities. We manage credit risk in the organization through policy requirements, established authorities and limits, mitigation activities and reporting. Our credit risk policies set out our requirements on credit granting, concentration, counterparty and country limits, risk rating, exposure measurement, monitoring and review, portfolio management and risk transfer, as well as management and Board reporting.

EDC is in the process of implementing a new Credit Risk Rating Engine (CRRE), which will update existing credit risk rating and assessment tools with a robust credit risk rating, assessment and workflow solution. The CRRE was developed to update and standardize EDC’s risk rating methodologies to align with best industry practices and regulatory directives, such as Basel III, and help improve the way the corporation makes credit acceptance decisions for its customers. The CRRE project will improve EDC’s existing risk rating methodologies and processes, streamlining data flow to ensure effective and efficient information is received on a timely basis and giving decision-makers a better tool to make informed decisions. EDC is committed to managing and using its capital efficiently. Through the implementation of the new capital system along with the CRRE project, we have refined and updated the way we calculate our capital needs. In 2012 we have in particular increased the precision around our risk parameters thereby giving us greater visibility on our capital requirements. This has resulted in a reduction of our capital demand, giving us more capacity to facilitate future business. Additional information on EDC’s capital efficiency can be found in Chapter 3.

## THE FINANCIAL SUSTAINABILITY DIMENSION

Sound financial management provides the foundation for EDC’s deployment of financial services. Through its commitment to financial sustainability and focus on efficiency, EDC can effectively respond to the demands of its customers today without compromising its ability to serve Canadian global businesses in the long term. All initiatives profiled in the Business Strategy must therefore be evaluated to ensure that they reflect the corporation’s commitment to fiscal prudence and the long-term viability of the organization.

The income that we generate is applied directly against Canada’s fiscal accounts and it provides us with a stronger capital base and the capacity to offer additional financial solutions for Canadian exporters.

EDC ensures financial sustainability by focusing on our productivity ratio – the ratio of administrative expenses to net revenue. By targeting a productivity ratio of 24-26%, the corporation commits to spend no more than approximately 25 cents of every dollar earned on overhead costs. In order to maintain this productivity ratio in the context of low levels of inflation as well as pursuing new trade-creating initiatives, EDC must achieve productivity savings every year. This ensures a constant focus on efficiency and effectiveness throughout EDC’s operations.

# 2.6 MEASURING SUCCESS

## CREATING BENEFITS FOR CANADA

Every transaction that EDC undertakes is in pursuit of a singular goal: to create benefits for Canada. EDC's success is a function of its customers' successes and, through them, of Canada's success.

By facilitating the exports and investments of Canadian companies, EDC helps to grow Canadian businesses, which in turn creates Canadian jobs and contributes to Canada's economic growth – thereby improving Canadians' standard of living. Other less tangible benefits derived from EDC's role fall under the objective of enhancing Canada's export capacity. This means helping small companies participate in integrative trade and using our financial capacity to take on riskier business, often in new emerging markets.

The Canadian Benefits Scorecard for the past three years and forecast for 2012 is below.

| Canadian Benefits Scorecard | 2009 | 2010 | 2011 | 2012 *Forecast*[3] |
|---|---|---|---|---|
| **Total Business Facilitated ($B)** | 82.8 | 84.6 | 102.8 | **96.2** |
| **% of Exports Facilitated** | 20.6 | 19.0 | 19.0 | **16.5** |
| **SME – Number Served** | 6,886 | 6,628 | 5,872 | **-** |
| **Business in Emerging Markets ($B)** | 18.7 | 24.7 | 31.2 | **29.6** |
| **Contribution to Canada's GDP ($B)** | 61.0 | 63.4 | 70.5 | **-** |
| **Contribution to Canada's GDP (%)** | 5.0 | 4.9 | 5.1 | **-** |
| **# of Jobs Supported** | **642,465** | **627,704** | **707,287** | **-** |
| **% of National Employment** | **3.8** | **3.7** | **4.1** | **-** |

## EDC'S SCORECARD FOR 2013

EDC's corporate scorecard drives the behaviours of its people and contributes to the achievement of the strategic objectives laid out in the plan. For 2013, EDC's scorecard will introduce changes which reflect our renewed focus on better serving small business exporters and will refine how we measure our performance against our fundamental objective: providing value to our customers and helping Canada succeed in trade.

[3] EDC is not able to forecast certain items due to the unavailability of specific data used to produce certain forecasts

*Business in Emerging Markets: Using Revenue as a Measure of Value*

Encouraging trade and investment in emerging markets has been a priority for EDC for several years. To provide a more complete picture of the value EDC is delivering to Canadian companies in emerging markets, in 2013 EDC is introducing revenue as the base for measuring its activity in emerging markets.

This measure will be calculated using accounting revenue as reported in the income statement. The revenue from emerging markets used for this measure will represent one component of total accounting revenue reported in EDC's income statement. Although its calculation will change, the measure will continue to be named **"Business in Emerging Markets."**

*Helping Small Business Exporters Compete Internationally*

EDC's current approach to serving the small business segment has evolved over time. The corporation is exploring how it can further refine the current approach such that EDC optimizes its impact on this segment. To ensure we focus on this segment of exporters, EDC is introducing a related measure. The **"Small Business Transactions"** measure will encompass all transactions related to small business exporters, closed over the course of the year.

As well as the new measures detailed above, the following is a description of the remaining measures included in the 2013-2017 Corporate Plan and how the corporation is forecast to perform in 2012 and 2013.

**Net Promoter Score**: The Net Promoter Score (NPS) is the measure against which EDC evaluates its success in customer satisfaction and loyalty. NPS measures EDC's reputation and the likelihood that its customers would recommend the corporation to business colleagues. EDC is forecasting its NPS score will stay within the same range in 2012, maintaining the very high level of customer satisfaction as compared with the North American average.

**Total Business Facilitated**: This measure provides an order of magnitude of the business Canadian companies carry out with the help of EDC's solutions. As mentioned in the Planning Environment, as the Canadian economy continues to recover, more and more exporters are choosing to self-insure and are accessing the private sector for financing and surety solutions.

**Business in Emerging Markets (BEM - 2012 definition)**: As noted in the Planning Environment, as private-sector capacity returns, demand for EDC's solutions is expected to decrease for 2012 and 2013. This decrease also impacts EDC's projections for BEM in the near term.

**Canadian Direct Investment Abroad (CDIA) Transactions**: Investments in foreign markets by Canadian companies are an important source of benefits to Canada. The facilitation of CDIA transactions has been incorporated into EDC's Business Strategy over the past several years and has now become an integral part of the corporation's core business..

**Partnership Transactions**: EDC's ability to effectively serve Canadian companies is enhanced by partnering with both public- and private-sector players. In 2012, the corporation expanded its definition of partnership transactions to include signed transactions resulting from referrals from EDC to BDC and from BDC to EDC, thereby underscoring the importance of the partnership with our sister Crown.

**Value for Money (VFM) to Total Cost of Ownership (TCO)**: While every organization must determine an optimal level of technology investment based on its corporate needs, the desired trend is to devote more resources to delivering on VFM objectives while managing TCO.

**Productivity Ratio (PR):** EDC's Productivity Ratio captures, in aggregate form, how well the corporation uses its resources. It is the ratio of administrative expenses to net revenue, excluding debt relief. As noted in the Financial Sustainability section of the Business Strategy, EDC operates under the philosophy of ensuring that our productivity ratio remains between 24 and 26%. EDC is forecasting a PR of 23.8% for 2012.

Sometimes extraordinary factors combine to warrant an increase in administrative expenses. The overlap of significant investments in the corporation's technology and systems on EDC's capital and operating expenses is expected to result in a temporary increase in the PR for 2013.

| Performance Measures | 2011 Actual | 2012 Plan | 2012 Forecast | 2013 Plan |
|---|---|---|---|---|
| Net Promoter Score | 71.2 | 70.0 – 76.0 maintain | 71.7 - 73.8 | 70.0 – 76.0 maintain |
| Total Business Facilitated ($B) | 102.8 | 3 – 6% growth | 96.2 | 3 – 6% decline |
| Business in Emerging Markets – Until 2012 ($B) | 31.2 | 4 – 8% growth | 29.6 | 0 - 3% decline |
| Business in Emerging Markets – 2013 and beyond ($M) [4] | 424 | N/A | 3-6 % growth | 2013 target to be determined on basis of new definition |
| CDIA Transactions | 823 | 3 – 6% growth | 831 | 1 – 4% growth |
| Partnership Transactions | 4,977 | 4 – 8% growth | 4780 | 3 – 6% decline |
| VFM to TCO Ratio | 37:63 | 35:65 | 35:65 | 35:65 |
| Financial Measures | | | | |
| Productivity Ratio (%) | 22.8 | 24-26 | 23.8 | 24-26 |
| Net Income ($M) | 645 | 917 | 1,030 | 835 |
| Employee Measures | | | | |
| Employee Engagement | - | Rank same as high-quality institutions | - | Rank same as high-quality institutions |
| Employee Retention (%) | 90.3 | ≥CB | 90.0 | |
| **New Measures for 2013** | | | | |
| Small Business Transactions | This measure is currently under development and will be tracked beginning in 2013. Baseline results for 2012 and target for 2013 will be determined according to the final definitions. | | | |

[4] In 2013 the definition of Business in Emerging Market will be modified. It will now be based on Accounting Revenue as reported in our Income Statement, and no longer on the volume of business done by our customers. Revenue represents what companies are willing to pay for the services EDC provides and is therefore a better proxy of the value these services represent for them. A new target will be set at the beginning of 2013 to reflect this change in definition.

# CHAPTER 3: EDC'S FINANCIAL PLAN

## Introduction

As noted earlier, EDC's focus on financial sustainability will continue to be a priority for the corporation. This involves earning a return sufficient to pay the bills and build capital to support more business, controlling administrative expenses, and minimizing losses. Under normal operating conditions, we expect to earn net income in the range of $600 to $800 million annually, operating on a capital base of approximately $11 billion. Fluctuations in the fair value of long-term debt and derivatives, claims-related expenses and provision for credit losses could cause net income to fall outside this range.

In the Financial Plan, we will first present the key business assumptions which were used to derive EDC's projected financial results, followed by a discussion of our projected operating expenses and planned capital expenditures. Projected financial statements and a discussion of our capital management and the statutory limits by which we must manage our organization are also included.

## 3.1 KEY BUSINESS ASSUMPTIONS

A series of key assumptions, including those with respect to business facilitated, risk profile of business facilitated, foreign exchange and interest rates, all of which have an impact on the corporation's business activity and financial performance, drive the financial plan. Using these assumptions, which are developed in line with our business strategy and economic outlook, EDC develops projected financial statements for all years throughout the planning period, including a forecast to the end of the current fiscal year.

We discuss the assumptions in the following pages. As is the case with any assumption, each is subject to volatility which is currently further amplified by the two-track economy discussed in Chapter 1. Also, any changes to EDC's business strategy or to the underlying assumptions may materially affect the projections over the planning period.

### BUSINESS FACILITATED

#### 2012 Forecast

The Financing business facilitated in 2012 has increased to $15.4 billion compared to last year's Corporate Plan mainly due to growth in the extractive sector, particularly with key borrowers in Latin America and due to strong results in the domestic financing program much of which is also tied to the extractive sector.

The 2012 Corporate Plan assumed that the domestic powers would end in March 2012; however, the government subsequently extended these powers to March 2013. Generally speaking, the challenges experienced in the European banking sector have contributed to the domestic demand by Canadian exporters for financing in the extractive sector.

Forecast business facilitated in respect of our insurance offerings is lower than shown in the 2012 Plan across all insurance programs. There are market considerations that explain this decline such as greater liquidity in the Canadian market which has meant that banks can manage their counterparties within their own limits therefore requiring less capacity from EDC. In addition, surety companies are no longer seeking reinsurance from EDC to the same extent as during the crisis period.

Also contributing to the reduction in forecast business facilitated for our insurance programs is a decline in business with several customers as well as some structural changes to our financial institutions insurance program which has impacted the type of business that we facilitate.

#### 2013 Plan

We are currently projecting core financing activity to decrease by 9% to $12.7 billion in 2013 mainly due to unusually strong demand in the project financing space in 2012 that is not projected to recur to the same extent in 2013. In addition, the plan assumes that

EDC's domestic powers will end after the first quarter of 2013. As commodity prices retreat from their high, we expect this to result in less demand for corporate loans.

The level of export business facilitated by our core insurance programs is expected to decrease by a further $2.7 billion to $77.5 billion in 2013.

### 2014-2017 Projections

The financial crisis and recession of 2008-09 caused a widespread freeze-up of liquidity that saw the world's financial institutions retreat from risk en masse. The phenomenon was global, and it extended to Canada. At the time, the higher risk and lower available credit brought a flood of new requests to EDC. Our credit insurance requests were up almost overnight by about 70% and financing requests were up by about 20%. Our market share peaked during the crisis.

Just as demand for our financing and insurance solutions grew substantially in the wake of the credit crisis, as lending conditions continue to ease and the economy continues to recover, we are expecting more and more exporters to access credit from the private sector and more companies to choose to self-insure, returning our market share to pre-crisis levels.

## RISK PROFILE OF BUSINESS FACILITATED

Generally speaking, EDC assumes more risk than a typical financial institution - this increased risk appetite is mandate driven. We take on larger single counterparty exposures and larger concentration exposures by sector, most notably in the transportation and extractive sectors which lead Canadian exports, than other institutions. We take on this exposure while maintaining limits based on best practice and benchmarks which incorporate our unique nature as an Export Credit Agency.

### Risk Profile of Financing Portfolio

The risk profile of the Financing portfolio is one way the corporation can track its risk appetite. The risk profile is also one of the key drivers of both loan provision for credit losses and capital demand for credit risk.

Table 1 provides the projected risk profile for new loan signings for the remainder of 2012 and throughout the planning period.

**Table 1: Risk Categories for New Loan Signings (2011-2017)**

| *(Based on $ value of signings)* | Inv. Grade | Below Inv. |
|---|---|---|
| Actual 2011 | **53%** | **47%** |
| 2012 Corporate Plan | **45%** | **55%** |
| 2012 Forecast [1] | **71%** | **29%** |
| 2013 Corporate Plan | **62%** | **38%** |
| 2014 Projected | **58%** | **42%** |
| 2015 Projected | **55%** | **45%** |
| 2016 Projected | **51%** | **49%** |
| 2017 Projected | **50%** | **50%** |

[1] If we exclude project finance, pull deals and transactions greater than $100 million, the proportion of investment grade deals drops to 45%.

The proportion of investment grade signings forecast for 2012 (71%) is significantly higher than the 2012 Corporate Plan. This is not a reflection of EDC taking on less risk in the below investment grade space. These results are driven by several large unanticipated investment grade deals, which have impacted the overall risk mix for new signings in the portfolio including, but not limited to, important pull transactions and deals in the project finance space. EDC is currently filling a gap in the investment grade market where European lenders have retrenched, and also with respect to revolvers (facilities which may or may not be drawn) where banks are reducing their appetite in anticipation of new, higher capital charges for these types of facilities.

Although this increase in dollar volume of investment grade signings naturally causes a temporary spike in the ratio mentioned above, EDC continues to facilitate a large number of higher risk, lower dollar value loan transactions. Based on number of transactions, more than 80% of new signings in 2012 are below investment grade loans.

## Risk Profile of Insurance Portfolio

The risk profile of EDC's credit insurance and financial institutions insurance portfolios is assessed on a basis similar to that used for the Financing program with one of several risk ratings (low, moderate, medium, high, priority or critical) assigned to each buyer.

EDC assesses the risk profile of our contract insurance and bonding (CIB) and political risk insurance (PRI) portfolios using various risk rating methodologies that are then translated into similar rating scales as those used for our Financing program risk assessments.

### FOREIGN EXCHANGE

EDC's Financial Plan uses a simple year-to-date average as the U.S. dollar foreign exchange rate assumption for the remainder of the year and all subsequent years. This removes the volatility associated with yearly dollar fluctuations and ensures more easily comparable projections. The rate used in this plan, as represented by the average rate for the period January 2012 through June 2012 is U.S. $1.00.

As the majority of EDC's business transactions are denominated in U.S. dollars, fluctuations in the Canada-U.S. exchange rate have a direct impact on EDC's bottom line as well as on its capital position. As discussed in Section 3.5, we have changed our Capital Adequacy Policy to help protect EDC's capital position against foreign-exchange risk.

There is also the indirect impact on EDC that occurs via our customers, the Canadian exporters. Since at least 70% of Canada's exports are priced in U.S. dollars, Canadian companies are highly exposed to fluctuations in the Canada-U.S. exchange rate. For a Canadian company that receives U.S. dollar revenues for its exports, appreciation of the Canadian dollar causes revenues to fall (when converted back to Canadian dollars). So even if there is no change in the physical volume of shipments, the stronger Canadian dollar automatically translates into lower export receipts in Canadian dollar terms.

Since 2007, the Canadian dollar has fluctuated between U.S. $0.78 and U.S. $1.09. The main reason for the volatility is that the Canadian dollar is often referred to as a "commodity currency", because its value moves when oil and other non-energy commodity prices move. The Canadian dollar also responds to swings in interest rate spreads and in U.S. dollar movements against other currencies.

### INTEREST RATES AND YIELDS

This forecast assumes that as growth resumes, the U.S. Federal Reserve will reverse the extraordinary monetary stimulus currently in place and interest rates will gradually return to normal levels.

## 3.2 ADMINISTRATIVE EXPENSES & PRODUCTIVITY RATIO

The Corporation continues to exercise additional prudence in managing its operational costs which is depicted through our administrative expense projections for 2013 and beyond. Items of significance are as follows:

1. We are targeting administrative expenses of $330 million for 2013 in line with our current forecast for 2012, as we continue our strong focus on cost containment. We are committed to holding flat or reducing discretionary expenses

such as travel and external business development. As highlighted in Chapter 2, EDC's people are one of our key strengths and also the driver of our largest costs – human resources. Retaining this talent pool is of utmost importance for the ongoing success of the organization in meeting its mandate so we do anticipate normal salary increases as we expect to maintain our existing staff complement. We are projecting a flat overall head count throughout the planning period.

2. The administrative expenses projections include a significant amount related to accounting pension expense in each year. The pension expense is an actuarially determined amount and is difficult to predict, as it is determined using a discount rate which is dependent on year-end market data. The discount rate used for each year of the plan aligns with the EDC Economics' outlook on the interest rate environment. Included in the administrative expense projections are substantial pension cost reductions over the planning period as a result of the projected increasing discount rate.

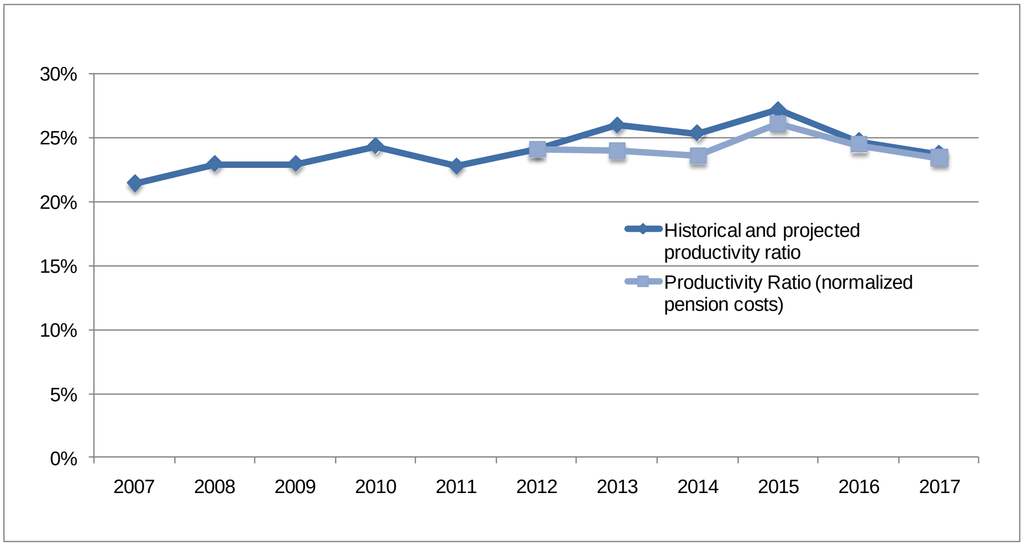
Changes in the actuarial assumptions associated with our pension liability can cause considerable variations in our administrative expenses between years. The introduction of a defined contribution plan for new employees in 2012 will reduce future pension funding volatility while maintaining an attractive and competitive total compensation offering for employees.

## PRODUCTIVITY RATIO

EDC has committed to targeting a Productivity Ratio (PR) of 24-26% throughout the planning period. This is a challenging undertaking, which will be especially difficult given inflationary pressures as well as the three trade-creating initiatives. While our administrative expenses increase with inflation, our revenue streams do not benefit from rising inflation – our loan revenue is linked to interest spreads. We will need to leverage productivity gains achieved through our investments in people, process improvements and technology to offset these pressures. By focusing on the productivity ratio rather than solely on expenses, it allows us some degree of flexibility to increase costs, where appropriate and/or when required provided there is a commensurate increase in value delivered to our customers as reflected by revenue. Managing the PR is key to ensuring EDC's financial sustainability.

As previously mentioned, our pension costs can fluctuate greatly from year to year based on changes in assumptions used to value our pension obligation. To provide greater perspective, Table 2 provides both a historical view and a projected view of EDC's PR. The graph also depicts the PR with normalized pension costs which generally falls within our targeted range throughout the planning period. This graph clearly demonstrates that the increase in PR as a result of the increasing pension expense is temporary and, based on our plan assumptions, should return to a more normal level by 2016.

**Table 2: Historical and Projected Productivity Ratio (2007-2017)**




# 3.3 PLANNED CAPITAL EXPENDITURES

**Table 3: Projected Capital Expenditures (2011-2017)**

| *(in millions of Canadian dollars)* | 2011 Actual | 2012 Plan | 2012 Fcst | 2013 Plan | 2014 Proj | 2015 Proj | 2016 Proj | 2017 Proj |
|---|---|---|---|---|---|---|---|---|
| Head Office and Facilities | 43.9 | 5.3 | 3.7 | 4.3 | 3.0 | 1.2 | 2.1 | 0.8 |
| Information Technology | 20.2 | 17.6 | 17.6 | 22.5 | 27.1 | 25.0 | 19.5 | 15.4 |
| **Total Capital Expenditures** | 64.1 | 22.9 | 21.3 | 26.8 | 30.1 | 26.2 | 21.6 | 16.2 |

Capital expenditures for 2013 - 2015 are projected to be higher than the 2012 Forecast, primarily as a result of the modernization of our legacy systems. There will continue to be a significant draw on capital, internal resources and operating costs over the planning period, as we redesign and rebuild our business platforms while continuing to maintain existing systems.

There is a governance and oversight structure in place, appropriate to the scale and risk of each undertaking, to manage technology capital requirements in the most effective way over the planning period. Approval of specific technology projects is provided by the Board of Directors or management, depending on project costs.

# 3.4 FINANCIAL RESULTS

## STATEMENT OF COMPREHENSIVE INCOME

**Table 4: Projected Condensed Consolidated Statement of Comprehensive Income (2011-2017)**

| *for the year ended December 31 (in millions of Canadian dollars)* | 2011 Actual | 2012 Corp Plan | 2012 Fcst | 2013 Plan | 2014 Proj | 2015 Proj | 2016 Proj | 2017 Proj |
|---|---|---|---|---|---|---|---|---|
| **Financing and investment revenue** | | | | | | | | |
| Loan | 1,009 | 986 | 1,104 | 1,108 | 1,237 | 1,628 | 1,984 | 2,472 |
| Finance lease | 7 | 6 | 6 | 5 | 5 | 4 | 2 | – |
| Operating lease | 21 | 15 | 20 | 60 | 64 | 59 | 55 | 54 |
| Debt relief | 4 | 1 | – | – | – | – | – | – |
| Marketable securities | 46 | 47 | 41 | 46 | 59 | 89 | 109 | 121 |
| Investments [1] | 19 | 19 | 34 | 22 | 28 | 35 | 41 | 47 |
| Total financing and investment revenue | 1,106 | 1,074 | 1,205 | 1,241 | 1,393 | 1,815 | 2,191 | 2,694 |
| Interest expense | 99 | 103 | 145 | 145 | 268 | 802 | 1,087 | 1,551 |
| Leasing and financing related expenses | 32 | 21 | 38 | 46 | 43 | 38 | 37 | 29 |
| **Net Financing and Investment Income** | 975 | 950 | 1,022 | 1,050 | 1,082 | 975 | 1,067 | 1,114 |
| **Loan Guarantee Fees** | 32 | 34 | 39 | 32 | 34 | 37 | 38 | 40 |
| Insurance premiums and guarantee fees | 238 | 251 | 233 | 227 | 222 | 234 | 246 | 257 |
| Reinsurance assumed | 13 | 6 | 9 | 6 | 6 | 6 | 6 | 6 |
| Reinsurance ceded | (17) | (20) | (21) | (18) | (18) | (19) | (20) | (20) |
| **Net Insurance Premiums and Guarantee Fees** | 234 | 237 | 221 | 215 | 210 | 221 | 232 | 243 |
| **Other Income (Expenses)** [1] | 60 | (30) | (33) | (25) | (25) | (26) | (22) | (22) |
| **Administrative Expenses** | 284 | 303 | 329 | 330 | 330 | 329 | 326 | 327 |
| **Income before Provision and Claims-Related Expenses** | 1,017 | 888 | 920 | 942 | 971 | 878 | 989 | 1,048 |
| **Provision for (Reversal of) Credit Losses** | 125 | (125) | (136) | 47 | 198 | 280 | 351 | 398 |
| **Claims-Related Expenses** | 247 | 96 | 26 | 60 | 69 | 103 | 111 | 109 |
| **Net Income** | 645 | 917 | 1,030 | 835 | 704 | 495 | 527 | 541 |
| **Other Comprehensive Income** | – | – | – | – | 11 | 2 | 2 | 2 |
| **Comprehensive Income** | 645 | 917 | 1,030 | 835 | 715 | 497 | 529 | 543 |
| **Productivity Ratio** | 22.8% | 25.5% | 23.8% | 25.9% | 25.4% | 27.2% | 24.8% | 23.8% |

[1] Investments (formerly called equity revenue) was reclassified from Other Income (Expenses).

### 2012 Forecast versus 2012 Corporate Plan

We are forecasting a net income of $1,030 million for 2012, an increase of $113 million over the 2012 Corporate Plan. Items of note regarding this forecast are as follows:

- The forecast reversal of provision for credit losses of $136 million is in line with the provision reversal projected in the 2012 Corporate Plan. However, there are several components within the provision reversal which have changed significantly, including:
  - A decline in the collateral values used in the calculations of the allowance on our secured aerospace portfolio, resulting in a $48 million increase in provision for credit losses.
  - An increase in provision of $71 million mainly due to the impact of downward credit migration for three obligors within the mining, telecom and light manufacturing sectors, in excess of that forecasted in the 2012

Corporate Plan.

- At the time the 2012 Corporate Plan was prepared, a provision release of approximately $100 million was anticipated upon the updating of the probability of default rates, and there was no quantifiable impact for the update of loss given default rates. However, the actual impact of updating these two variables was a release of provision of $219 million.

- Net disbursements are forecast to be $2.5 billion higher than was projected in the 2012 Corporate Plan, resulting in increases in loan revenue and interest expense; and
- Pension costs (included within administrative expenses) increased $31 million as a result of changes in actuarial assumptions (lower discount rate, lower expected return on assets and change in mortality rates) associated with the pension liability. The remaining administrative expenses are forecasted to be below Plan.

### 2013 Corporate Plan versus 2012 Forecast

The planned net income for 2013 is $835 million, which represents a decrease of $195 million from 2012 mainly due to a release of provision in 2012 resulting from the update of independent variables discussed above that is not expected to recur in 2013.

### 2014 to 2017

As noted in the planning environment section in Chapter 1, we expect the economy to recover and settle into a steadier growth path after a period of continued volatility in the short-term. As the economy begins to settle, we are projecting that interest rates will rise throughout the period from 2014 to 2017; thereby significantly increasing both projected loan revenue and interest expense. Although the individual components are increasing, the rising interest rates have very little impact on net financing and investment income because a large proportion of our book is match funded. As a result, our net financing and investment income is impacted mainly by changes in spreads.

Included in the administrative expense projections are substantial pension cost reductions over the planning period as a result of a projected increase in the pension accounting discount rate from 4.5% in 2012 to 6% by 2017. These increasing rates align with the EDC Economics' projected outlook on the interest rate environment. If this increase in rates does not materialize, projected administrative expenses in each year would be higher than currently projected in the plan.

Due to the volatility and difficulty in estimating fair value gains or losses on long-term debt, investments and related derivative instruments, no forecast for these items is included in the Corporate Plan financial results. To provide perspective on the potential magnitude of these items, we have reviewed the period from 2008 to 2011 to determine the actual fair value gains or losses recorded in each of these periods – these amounts varied from an accounting gain of $255 million to an accounting loss of $179 million.

# STATEMENT OF FINANCIAL POSITION

**Table 5: Projected Condensed Consolidated Statement of Financial Position (2011-2017)**

| *as at December 31* *(in millions of Canadian dollars)* | 2011 Actual | 2012 Corp Plan | 2012 Fcst | 2013 Plan | 2014 Proj | 2015 Proj | 2016 Proj | 2017 Proj |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash | 90 | 89 | 154 | 154 | 154 | 154 | 154 | 154 |
| Marketable securities: | | | | | | | | |
| At fair value through profit or loss | 3,720 | 3,054 | 3,606 | 4,109 | 4,109 | 4,109 | 4,109 | 4,109 |
| At amortized cost | 76 | 73 | 76 | 76 | 76 | 76 | 76 | 76 |
| Derivative instruments | 1,541 | 2,082 | 1,497 | 1,497 | 1,497 | 1,497 | 1,497 | 1,497 |
| Loans receivable | 28,680 | 27,170 | 30,983 | 31,733 | 33,260 | 34,979 | 39,014 | 44,271 |
| Allowance for losses on loans | (1,680) | (1,253) | (1,441) | (1,364) | (1,464) | (1,550) | (1,712) | (1,901) |
| Investments at fair value through profit or loss | 385 | 503 | 450 | 500 | 537 | 563 | 576 | 579 |
| Equipment available for lease | 55 | 53 | 548 | 517 | 488 | 462 | 436 | 413 |
| Net investment in aircraft under finance leases | 92 | 78 | 81 | 70 | 58 | 46 | 15 | – |
| Recoverable insurance claims | 44 | 218 | 82 | 80 | 89 | 76 | 69 | 79 |
| Reinsurers' share of policy and claims liabilities | 129 | 142 | 90 | 101 | 99 | 107 | 118 | 128 |
| Other assets | 174 | 141 | 205 | 201 | 197 | 192 | 208 | 217 |
| Property, plant and equipment | 74 | 74 | 68 | 60 | 59 | 56 | 51 | 51 |
| Intangible assets | 40 | 41 | 39 | 39 | 42 | 46 | 47 | 43 |
| Building under finance lease | 176 | 162 | 169 | 162 | 155 | 148 | 141 | 134 |
| **Total Assets** | 33,596 | 32,627 | 36,607 | 37,935 | 39,356 | 40,961 | 44,799 | 49,850 |
| **Liabilities and Equity** | | | | | | | | |
| Accounts payable and other credits [1] | 159 | 138 | 132 | 128 | 123 | 119 | 114 | 109 |
| Loans payable: | | | | | | | | |
| Designated at fair value through profit or loss | 21,505 | 21,312 | 24,432 | 25,679 | 28,104 | 29,650 | 33,423 | 38,374 |
| At amortized cost | 2,065 | 994 | 2,031 | 2,031 | 1,026 | 1,026 | 1,006 | 1,006 |
| Derivative instruments | 178 | 130 | 181 | 181 | 181 | 181 | 181 | 181 |
| Obligation under finance lease | 177 | 166 | 173 | 169 | 166 | 162 | 158 | 154 |
| Retirement benefit obligations | 74 | 84 | 86 | 307 | 297 | 292 | 313 | 334 |
| Allowance for losses on loan commitments | 41 | 100 | 66 | 63 | 88 | 134 | 176 | 230 |
| Policy and claims liabilities [1] | 875 | 787 | 548 | 565 | 552 | 581 | 620 | 657 |
| Loan guarantees | 266 | 169 | 172 | 170 | 166 | 161 | 151 | 146 |
| | 25,340 | 23,880 | 27,821 | 29,293 | 30,703 | 32,306 | 36,142 | 41,191 |
| **Equity** | | | | | | | | |
| Share capital | 1,333 | 1,333 | 1,333 | 1,333 | 1,333 | 1,333 | 1,333 | 1,333 |
| Retained earnings | 6,923 | 7,414 | 7,453 | 7,295 | 7,295 | 7,295 | 7,295 | 7,295 |
| Accumulated other comprehensive income | – | – | – | 14 | 25 | 27 | 29 | 31 |
| | 8,256 | 8,747 | 8,786 | 8,642 | 8,653 | 8,655 | 8,657 | 8,659 |
| **Total Liabilities and Equity** | 33,596 | 32,627 | 36,607 | 37,935 | 39,356 | 40,961 | 44,799 | 49,850 |

[1] Certain amounts in the 2012 Corporate Plan Statement of Financial Position have been reclassified to conform with the presentation of EDC's 2011 actual financial results. Changes in classification include:
- Pension obligation ($84 million) reclassified from Accounts payable and other credits to Retirement benefit obligations
- Deferred insurance premiums ($106 million) included in Policy and claims liabilities.

## 2012 Forecast versus 2012 Corporate Plan

Total assets for 2012 are forecast at $36.6 billion, an increase of $4.0 billion over the 2012 Corporate Plan mainly due to forecast growth in loans receivable. Two key items have contributed to this growth:

- The 2011 actual year-end balance was $2.2 billion higher than anticipated at the time of preparing the 2012 Corporate Plan due to a higher level of loan signings in 2011 than forecast and a weaker Canadian dollar, and
- Net loan disbursements in the current forecast for 2012 are $2.5 billion higher than projected in the 2012 Corporate Plan due to an expected higher level of loan signings in 2012 as well as greater utilization of revolvers.

While the above items have led to increases in loans receivable, the growth has been tempered by the return of aircraft by an impaired obligor under bankruptcy protection to EDC. As part of their restructuring, they returned to EDC aircraft for which EDC provided secured financing. As a result, the corresponding loans will be removed from our books and our equipment available for lease portfolio will increase.

Loans payable for 2012 are forecast to be $4.2 billion higher than the 2012 Corporate Plan amount of $22.3 billion mainly due to the impact of the increased loan signings discussed above and increased liquidity needs. Our borrowing requirements are driven largely by the activity within our loan portfolio.

### 2013 Corporate Plan versus 2012 Forecast

Loans receivable are planned to be $0.7 billion higher than the 2012 forecast of $31.0 billion as result of net disbursements in 2013. Loans payable are growing in tandem with the projected increase in loans receivable.

The retirement benefit obligation is projected to increase by $221 million in 2013 mainly because of a change in the pension accounting standard whereby actuarial gains and losses can no longer be deferred and amortized. Therefore, $259 million of unamortized actuarial losses must be added to the outstanding liability in 2013. The amended standard is further discussed in the following section.

## STATEMENT OF CHANGES IN EQUITY

**Table 6: Projected Condensed Consolidated Statement of Changes in Equity (2011-2017)**

| *for the year ended December 31* *(in millions of Canadian dollars)* | 2011 Actual | 2012 Plan | 2012 Fcst | 2013 Plan | 2014 Proj | 2015 Proj | 2016 Proj | 2017 Proj |
|---|---|---|---|---|---|---|---|---|
| **Share Capital** | 1,333 | 1,333 | 1,333 | 1,333 | 1,333 | 1,333 | 1,333 | 1,333 |
| **Retained Earnings** | | | | | | | | |
| Balance beginning of year | 6,628 | 6,960 | 6,923 | 7,453 | 7,295 | 7,295 | 7,295 | 7,295 |
| Transitional adjustment on application of IAS 19 | – | – | – | (254) | – | – | – | – |
| Net income | 645 | 917 | 1,030 | 835 | 704 | 495 | 527 | 541 |
| Dividend paid [1] | (350) | (463) | (500) | (739) | (704) | (495) | (527) | (541) |
| Balance end of year | 6,923 | 7,414 | 7,453 | 7,295 | 7,295 | 7,295 | 7,295 | 7,295 |
| **Accumulated Other Comprehensive Income** | | | | | | | | |
| Balance beginning of year | – | – | – | – | 14 | 25 | 27 | 29 |
| Transitional adjustment on application of IAS 19 | – | – | – | 14 | – | – | – | – |
| Other comprehesive income | – | – | – | – | 11 | 2 | 2 | 2 |
| Balance end of year | – | – | – | 14 | 25 | 27 | 29 | 31 |
| Retained earnings and accumulated other comprehensive income | 6,923 | 7,414 | 7,453 | 7,309 | 7,320 | 7,322 | 7,324 | 7,326 |
| **Total Equity at End of Year** | 8,256 | 8,747 | 8,786 | 8,642 | 8,653 | 8,655 | 8,657 | 8,659 |

[1] Table reflects payment of eligible dividend as per the policy outlined in section 3.5 on Capital without consideration of other factors.

Effective, January 1, 2013, retirement benefit obligations are reported using the amended *International Accounting Standards (IAS) 19 - Employee Benefits* standard, which removes the option to defer and amortize gains and losses, requires that the impact of re-measuring pension assets and liabilities be recorded in other comprehensive income and enhances disclosure requirements. At transition, we will need to restate the 2012 comparative results. So as not to include two versions of the 2012 results in the Plan, we have included all transitional adjustments related to this standard in the 2013 results, as follows:

- A $254 million reduction in opening retained earnings. This results from the inclusion of the December 31, 2011 unamortized actuarial losses totalling $259 million in the retirement benefit obligation. In addition, the 2012 pension expense is expected to be lower by $5 million in the restated 2012 comparatives. The main factors causing this reduction in pension expense are:
  - the elimination of the corridor approach which reduces pension expense by $16 million by removing the portion of the expense related to the amortization of actuarial losses; and
  - the requirement to set the expected return on assets to the accounting discount rate which leads to an increase in the restated pension expense of $10 million.
- A $14 million increase in opening accumulated other comprehensive income (OCI). Under the amended standard, all actuarial gains and losses must be immediately recognized in OCI. This means that for any instance in which the results differ from

actuarial assumptions the variance will be recognized in other comprehensive income or expense.

## STATEMENT OF CASH FLOWS

### Table 7: Projected Condensed Consolidated Statement of Cash Flows (2011-2017)

| *for the year ended December 31* *(in millions of Canadian dollars)* | 2011 Actual | 2012 Plan | 2012 Fcst | 2013 Plan | 2014 Proj | 2015 Proj | 2016 Proj | 2017 Proj |
|---|---|---|---|---|---|---|---|---|
| **Cash Flows from (used in) Operating Activities** | | | | | | | | |
| Comprehensive income | 645 | 917 | 1,030 | 835 | 715 | 497 | 529 | 543 |
| Adjustments to determine net cash from (used in) operating activities | | | | | | | | |
| Provision for (reversal of) credit losses | 125 | (125) | (136) | 47 | 198 | 280 | 351 | 398 |
| Actuarial change in the net allowance for claims | 179 | 29 | (276) | 9 | (6) | 24 | 27 | 25 |
| Depreciation and amortization | 48 | 16 | 50 | 67 | 65 | 64 | 63 | 54 |
| Changes in operating assets and liabilities | | | | | | | | |
| Change in derivative instruments receivable | 174 | – | 42 | – | – | – | – | – |
| Change in derivative instruments payable | (138) | – | 23 | – | – | – | – | – |
| Other | 175 | 271 | 699 | (87) | (57) | 36 | 67 | 107 |
| Loan receivable disbursements | (10,393) | (10,011) | (12,673) | (12,143) | (12,586) | (14,182) | (15,815) | (16,561) |
| Loan receivable repayments | 8,735 | 9,324 | 9,462 | 11,325 | 11,041 | 12,336 | 11,631 | 11,149 |
| Net cash from (used in) operating activities | (450) | 421 | (1,779) | 53 | (630) | (945) | (3,147) | (4,285) |
| **Cash Flows from (used in) Investing Activities** | | | | | | | | |
| Investments disbursements | (106) | (140) | (114) | (109) | (109) | (109) | (109) | (110) |
| Investments receipts | 29 | 68 | 32 | 59 | 72 | 83 | 96 | 107 |
| Finance lease repayments | 9 | 10 | 10 | 11 | 12 | 12 | 10 | 2 |
| Net (purchases)/sales/maturities of marketable securities at fair value through profit or loss | 59 | – | 114 | (503) | – | – | – | – |
| Net (purchases)/sales/maturities of marketable securities at amortized cost | (55) | – | – | – | – | – | – | – |
| Distribution from investment in joint ventures | 54 | 5 | 2 | – | – | – | – | – |
| Net cash from (used in) investing activities | (10) | (57) | 44 | (542) | (25) | (14) | (3) | (1) |
| **Cash Flows from (used in) Financing Activities** | | | | | | | | |
| Issue of long-term loans payable - designated at fair value through profit or loss | 5,708 | 6,418 | 8,656 | 6,476 | 4,603 | 8,418 | 11,497 | 8,935 |
| Repayment of long-term loans payable - designated at fair value through profit or loss | (6,135) | (5,142) | (6,782) | (5,787) | (3,564) | (7,734) | (8,283) | (5,230) |
| Repayment of long-term loans payable at amortized cost | – | (974) | – | – | (1,006) | – | (20) | – |
| Net change in short-term loans payable - designated at fair value through profit or loss | 881 | (203) | 424 | 539 | 1,326 | 770 | 483 | 1,122 |
| Change in derivative instruments receivable | 296 | – | 13 | – | – | – | – | – |
| Change in derivative instruments payable | 25 | – | (12) | – | – | – | – | – |
| Dividend paid | (350) | (463) | (500) | (739) | (704) | (495) | (527) | (541) |
| Net cash from (used in) financing activities | 425 | (364) | 1,799 | 489 | 655 | 959 | 3,150 | 4,286 |
| Effect of exchange rate changes on cash | 1 | – | – | – | – | – | – | – |
| Net increase (decrease) in cash | (34) | – | 64 | – | – | – | – | – |
| **Cash** | | | | | | | | |
| Beginning of year | 124 | 89 | 90 | 154 | 154 | 154 | 154 | 154 |
| End of year | 90 | 89 | 154 | 154 | 154 | 154 | 154 | 154 |

## ACCOUNTING POLICIES AND FUTURE ACCOUNTING CHANGES

The accounting policies used in the preparation of this Financial Plan are in accordance with International Financial Reporting Standards (IFRS). The earnings of the corporation and its subsidiary are not subject to the requirements of the Income Tax Act.

## EVOLVING STANDARDS

The International Accounting Standards Board (IASB) has a number of projects underway, some of which will affect the standards relevant to EDC, such as IAS 19 mentioned earlier.

We are also closely monitoring the progress on IASB projects related to the impairment of financial assets, insurance contracts and leases. Revisions made to these standards could potentially have a significant impact on EDC's financial statements in future periods. There are a number of other amendments to standards that will come into effect throughout the planning period but we are expecting the impact to be limited to additional disclosure requirements with no impact on the financial results.

# 3.5 CAPITAL MANAGEMENT

## CAPITAL ADEQUACY POLICY (CAP)

EDC efficiently manages its capital, through its Board-approved CAP, in order to be able to meet the demands of its current and future business while maintaining its ability to withstand future, unpredictable risks. At its foundation, the CAP has a guiding philosophy and set of principles that balance the requirement to fulfill our public policy mandate while remaining financially self-sustaining. The CAP also contemplates the need to maintain sufficient capital to protect the corporation from risk uncertainties.

A key principle of our CAP is the establishment of a target solvency standard for EDC that determines the level of capital that is required to cover its exposures even in exceptional circumstances. As a corporation, we target the maintenance of a AA solvency rating, a solvency level consistent with the level which leading financial institutions target. Maintaining a AA target solvency rating ensures that our capital position is strong enough to enable us to remain a self-sustaining Crown corporation and to contribute, in a positive manner, to Canada's bottom line. Our capital position is also subject to downside vulnerabilities, and a AA target provides an appropriate level of resilience to the risks we take on in order to fulfill our mandate.

Both our demand for capital and our supply of capital are calculated using methodologies that are generally consistent with the Basel II framework. The introduction of Basel III will not affect our capital framework but is consistent with our objective of maintaining strong levels of capital relative to our risk assets. EDC defines capital supply as the sum of total equity and allowances, as determined in accordance with IFRS. Under the capital management framework, we determine whether we have adequate capital by comparing our supply of capital to our demand for capital. EDC quantifies demand for capital arising from credit, market, operational and business risk using rigorous models and practices.

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

EDC's capital is first and foremost available to provide capacity to Canadian exporters and investors for the benefit of Canada and it is our intention to fully utilize our capital in support of our mandate. We have refined and updated the way we calculate our capital needs through the implementation of our new capital system. In 2012 we increased the precision around our risk parameters which has given us greater visibility on our capital requirements. This exercise has resulted in a reduction in EDC's capital demand which leads to increased capacity for EDC to facilitate exports going forward.

The CAP also recognizes that there may be situations in which EDC's Board of Directors may authorize a dividend payment from surplus capital. Therefore, the CAP includes a potential eligible dividend methodology to guide the Board of Directors in determining any dividend amount.

Our objective for managing capital over the planning period is to grow the corporation's capital base to a level that will enable EDC to sustain both our existing base of business and potential new opportunities for Canadian exporters. In addition, EDC must remain resilient to potential portfolio stresses - in the current global environment, "black swans" have the potential to occur more frequently. Our capital position should be strong enough to absorb these potential market shocks.

EDC is currently forecasting a capital surplus of $3.5 billion in 2012 compared to a capital surplus of $2.0 billion in 2011. The yearly increase in the capital surplus from 2011 to 2012 is due to the elimination of strategic risk capital, the appreciation of the Canadian dollar relative to the U.S. dollar, along with the introduction of new estimates of probability of default and loss given default within the loans portfolio.

## ELIGIBLE DIVIDENDS

As was noted in the 2012-2016 Corporate Plan, in light of a new capital system implementation in 2011, EDC embarked on a review of the CAP. It was determined that three areas in the CAP relating to the eligible dividend methodology needed to be strengthened:

Protecting EDC's capital position against foreign-exchange risk: the potential eligible dividend methodology has added the ability for EDC to withstand a one-year fluctuation within its solvency target.

- In addition, management and the Board will take into account an analysis on two other areas of consideration in assessing dividend eligibility:
  - Allocated Demand: This represents capital earmarked to cover the demand for a specific purpose that is outside the normal demand growth built into the Corporate Plan.
  - Stress Tests: A set of standard stress tests will be performed according to current market practice.

Since the introduction of the CAP in 2006, EDC's demand for capital has included a demand component for Strategic Risk Capital (SRC). SRC was designated for supporting higher risk business opportunities of strategic importance to EDC's customers and their industries, but which are outside of EDC's typical operational norms. The inclusion of an allocated demand consideration in the dividend eligibility methodology captures EDC's estimated need for capital related to strategic initiatives. For this reason the SRC capital demand component has been eliminated from the CAP.

We calculate the eligible dividend in the first quarter of the following year once we have finalized our year-end results. For year-end 2012 this is currently estimated to be $739 million, assuming 2012 net income reaches $1,030 million as forecast.

After consultation with the Minister of International Trade and the Minister of Finance, management provides the Board of Directors with the results of the dividend eligibility calculation, along with the two considerations for review together with a recommendation as to the amount of the dividend to pay, if any. The Board makes the final determination of whether EDC will pay a dividend. Provided the Minister of International Trade supports the approved dividend, we normally pay the dividend prior to March 31 of the following year.

In 2012, EDC paid out a dividend of $500 million. Since 2002, EDC has paid a total of $1,545 million in dividends to the Government of Canada.

## 3.6 STATUTORY LIMITS

EDC is subject to two limits imposed by the *Export Development Act*:

1. A limit on our contingent liability arrangements which is currently $45.0 billion ('contingent liability limit') and
2. A limit on our borrowings ('Loans Payable Limit').

Our projected position against each of these statutory limits at year-end throughout the planning period is provided in the table below.

**Table 8: Statutory Limits (2011-2017)**

| *(in millions of Canadian dollars)* | 2011 Actual | 2012 Plan | 2012 Fcst | 2013 Plan | 2014 Proj | 2015 Proj | 2016 Proj | 2017 Proj |
|---|---|---|---|---|---|---|---|---|
| **Contingent Liability Limit** | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 |
| Credit insurance | 7,909 | 10,604 | 12,291 | 11,490 | 11,152 | 11,926 | 12,691 | 13,407 |
| Financial institutions insurance | 6,939 | 4,788 | 2,017 | 2,119 | 2,057 | 2,199 | 2,341 | 2,472 |
| Contract insurance and bonding | 9,367 | 9,972 | 8,386 | 8,423 | 8,892 | 8,650 | 8,803 | 8,984 |
| Political risk insurance | 1,795 | 2,072 | 1,773 | 1,314 | 1,287 | 1,399 | 1,555 | 1,555 |
| Loan guarantees | 2,740 | 2,095 | 2,107 | 2,230 | 2,400 | 2,568 | 2,607 | 2,800 |
| Position against limit | 28,750 | 29,531 | 26,574 | 25,576 | 25,788 | 26,742 | 27,997 | 29,218 |
| Percent used | 64% | 66% | 59% | 57% | 57% | 59% | 62% | 65% |
| **Loans Payable Limit** | 122,715 | 124,395 | 123,840 | 131,790 | 129,420 | 129,420 | 129,420 | 129,420 |
| Position against limit | 23,570 | 22,306 | 26,463 | 27,710 | 29,130 | 30,676 | 34,429 | 39,380 |
| Percent used | 19% | 18% | 21% | 21% | 23% | 24% | 27% | 30% |

## 3.7 ASSET/LIABILITY MANAGEMENT AND BORROWING STRATEGIES

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

### ASSET LIABILITY AND MARKET RISK MANAGEMENT

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

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

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

Credit risk from Treasury activities arises from two sources: investments and derivatives. In each case, there is a risk that the counterparty will not repay in accordance with contractual terms. The Market Risk Management Policy establishes minimum counterparty credit rating requirements and maximum exposure limits for the management of credit risk. In addition to limits, EDC utilizes other credit mitigation techniques to assist in credit exposure management. Currently, EDC has a collateral program in which 19 of Treasury's swap counterparties participate; EDC's counterparties pledge sovereign debt from any of Canada, the United States, Great Britain, France and/or Germany (held by EDC's collateral agent) which typically offset a major portion of EDC's credit exposure.

EDC continually monitors its exposure to movements in interest rates and foreign exchange rates as well as its counterparty credit exposures. Positions against policy limits are reported on a monthly basis and any policy breach is immediately reported directly to the Chair of the Board of Directors. EDC's Asset Liability Committee meets, at least quarterly, to review current and future compliance with the corporation's Market Risk Management policies. EDC's market risk positions are reported quarterly to the Risk Management Committee of the Board of Directors.

## BORROWING STRATEGIES

### Statutory Borrowing Authorities

The ED Act permits the corporation to borrow and have outstanding loans payable up to a maximum of 15 times the aggregate of its current paid in capital and retained earnings which are determined in accordance with the corporation's audited financial statements for the previous year. Based on the 2012 forecast, the maximum limit for 2013 is estimated at $131.8 billion, compared to forecasted loans payable at the end of 2013 of $27.7 billion.

In determining the amount of capital markets borrowing authority which is sought from the Minister of Finance, a margin of prudence is added to facilitate intra-year management of the debt program. For the money market borrowing authority, a buffer is required to ensure that EDC can respond to any rapid escalation in the drawdown of revolvers (approximately U.S. $10.4 billion undrawn forecast at December 31, 2013), meet its current obligations and maintain sufficient money market borrowing capacity to provide liquidity. The temporary expansion of EDC's mandate to include facilitation of domestic business as well as the uncertainty sweeping capital markets in Europe heightens the importance of this cushion.

On an annual basis, EDC obtains approval from the Minister of Finance for the amounts it plans to borrow in the capital and money markets. EDC follows the Minister of Finance's guidelines in all of its borrowing and capital market activities. Board resolutions are put in place, annually, which permit EDC to operate within the authorities prescribed by the Minister.

As a back-stop to the borrowing strategy, EDC maintains a liquid investment portfolio that allows the corporation to bridge unfavourable market conditions and respond to rapid changes in demand for asset funding. Under the corporation's Liquidity Policy, EDC and the Department of Finance have a formalized process in which EDC could access the Consolidated Revenue Fund if required. The authority to access this Fund is granted in the short-term and long-term borrowing approvals and is available should market conditions warrant. These borrowings would be subject to the normal operating limits already in effect for the year.

### Borrowing Approach

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

EDC issues commercial paper (CP) to meet EDC's operating requirements and issues capital market debt to refinance maturing debt and to fund EDC's asset portfolio. This philosophy may change during periods of market stress.

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

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

The execution of the borrowing and liquidity strategies are monitored on a daily basis by the EDC Treasury team's management. Monthly reports are provided to senior management and quarterly reports are provided to the Audit Committee of the Board.

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

## SOURCES OF FINANCING

### Money Markets Borrowing Program

The money markets borrowing program, with a current authorized limit of U.S. $8.0 billion, consists of various international CP programs designed to ensure that sufficient funds are available to meet EDC's daily and other short-term financial commitments. Daily cash requirements are managed proactively to reduce the cost of funds and rollover risk. It is typical for the size of the CP programs to increase as they fund EDC's daily activity and to decrease as the proceeds from a capital markets borrowing are absorbed.

The amount of CP outstanding is typically managed within a range. A minimum threshold is set due to the need to maintain a market presence while the upper end of the range is governed by the corporation's Liquidity Policy.

The Liquidity Policy requires EDC to maintain sources of liquidity in amounts equal to or greater than a forecast of three months of anticipated cash requirements. Sources of liquidity are unused CP capacity and the liquidity portfolio of investments. This level of liquidity is maintained to safeguard the corporation against cash flow interruptions in the capital markets and unexpected cash flow demands. Unexpected cash flow demands most often result from EDC's undrawn revolver commitments, estimated at U.S. $10.4 billion at December 31, 2013, which have a typical notification period of two days. A portion of undrawn revolver requirements is included in the calculation of anticipated cash requirements.

EDC's business development effort can impact the liquidity and funding strategies and require a rapid response. Specifically, total revolver commitments have increased by approximately 175% or U.S. $8.0 billion over the last five years and are forecast to increase by a further U.S. $2.5 billion in 2013, adding to short-term financing requirements. With the addition of the domestic mandate, domestic revolvers have rapidly grown as a proportion of total revolvers, comprising about one-third of such commitments in 2012.

EDC is therefore seeking approval from the Minister of Finance to increase the short-term borrowing program limit to U.S. $12.0 billion. The limit will enable EDC to meet the forecast peak in CP outstandings of U.S. $7.5 billion. It will also ensure that the unused CP capacity combined with the investment portfolio is adequate to cover the three month anticipated cash requirements as defined under the Liquidity Policy. EDC is seeking approval to approach the Minister for additional CP capacity of U.S. $2.0 billion should business requirements warrant.

### Capital Markets Borrowing Program

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

In order to smooth its maturity profile, respond to investor demand and to access local currency funding in priority emerging markets, EDC may issue structured and medium-term notes. Structured notes can be issued in a variety of maturities including some which are longer-dated (investor preference can extend out to 30-year maturities) with callable features. Longer dated callable instruments include an option for EDC to terminate the instrument at certain points up to and including at the 10 year anniversary of the instrument and are swapped into floating or fixed rate obligations. The mix of funding is guided by numerous factors including relative cost, market conditions and the profile of the loan assets portfolio.

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

The Corporate Plan projects a baseline borrowing requirement of U.S. $6.5 billion which is driven by capital markets refinancing requirements. Borrowing requirements resulting from net loan disbursements are expected to decrease as EDC's product mix changes and the continued global slowdown affects economic growth. EDC is requesting a capital markets borrowing limit of U.S. $9.0 billion from the Minister of Finance based on the Corporate Plan calculations plus a margin for prudence reflecting potential increases to long-term financing requirements.

## DRIVERS OF CAPITAL MARKETS BORROWING REQUIREMENTS

### Refinancing Needs

In 2013, capital markets refinancing needs are projected to be approximately U.S. $5.5 billion.

### Debt Buyback

Treasury considers opportunities to buy back its debt in order to smooth its maturity profile or to take advantage of refinancing opportunities at lower costs. Buybacks are also considered part of our investor relations strategy, offering assistance to investors that are unable to find a reasonable market for our non-benchmark maturities. EDC has maintained this program for several years which gives investors confidence that they will have no concerns when making adjustments to their portfolios.

### Potential Increases to Cash Requirements

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

### Increased Lending Activity (New Business)

The level of business facilitated by EDC is dependent upon the import spending of other countries. If a global recovery outpaces EDC's forecasts and/or world liquidity tightens further, capital markets funding requirements could increase. As part of the Corporate Plan process, a sensitivity analysis was prepared. Based on the analysis, an additional U.S. $1.0 billion of financing business facilitated could increase borrowing requirements by approximately U.S. $310 million.

### Reduce CP Outstanding

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

### Pre-Funding of 2014 Business Facilitated

Uncertainty plaguing capital markets due to Eurozone insolvencies and U.S. deficit and debt levels, as well as associated credit rating agency actions, have resulted in sharp increases in funding costs for certain sovereigns and somewhat lacklustre reception to some capital market issues. Continued uncertainty could result in market stress with attendant increased funding levels and/or reduced access to capital in 2014. As a result, EDC may seek to pre-fund some of its 2014 capital markets financing requirements in an effort to minimize debt service costs and lock-in longer term funding.

**Table 9: Capital Markets Borrowing Requirement Projection for 2013**

| *(in millions of U.S. dollars)* | | **2013 Plan** |
|---|---|---|
| Decrease/(Increase) in Cash from Operations | (53) | |
| Net increase (decrease) in cash | - | |
| Other cash requirements | 39 | |
| Eligible Dividend | 735 | |
| Activity from Operations | | 721 |
| Decrease/(Increase) in Short-Term Loans Payables | (536) | |
| Net (purchase) sales of held-for-trading marketable securities | 500 | |
| Refinancing of Debt Maturities | 5,493 | |
| Buybacks | 249 | |
| Callable Debt | 13 | |
| Activity from Liabilities | | 5,719 |
| **Forecast Borrowing Requirements for Corporate Plan[1]** | | **6,440** |
| **Potential Increases to Cash Requirements** | | |
| Changes to assumption on Lending Activity | 310 | |
| Changes to assumption on Revolving Facilities | 1,000 | |
| Reduction of Outstanding Commercial Paper | 500 | |
| Pre-funding of 2014 Volumes/Maturities | 500 | |
| **Potential Additional Borrowing Requirements** | | **8,750** |

[1] Table 7 - Statement of Cash Flows - Issue of long-term loans payable in Canadian dollars (FX rate $1.0057) is $6,476.

From time to time, as a result of unforeseen financial market conditions or unexpected variances in approved corporate activity, there may be a need to amend the terms and conditions as approved by the Minister of Finance, following the approval of the Corporate Plan. In such instances, EDC will continue to seek the approval of the Minister of Finance and report on any changes in the subsequent Corporate Plan.

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

**Table 10: Projected Borrowing Plans (2011 – 2017)**

| *(in millions of Canadian dollars)* | 2011 Actual | 2012 Plan | 2012 Fcst | 2013 Plan | 2014 Proj | 2015 Proj | 2016 Proj | 2017 Proj |
|---|---|---|---|---|---|---|---|---|
| **Capital Markets Borrowing Limit** | | | | | | | | |
| **(U.S. $9.0 billion)** [1] | 9,148 | 8,767 | 9,051 | - | - | - | - | - |
| Position | 5,708 | 6,418 | 8,656 | 6,476 | 4,603 | 8,418 | 11,497 | 8,935 |
| Percent used | 62% | 73% | 96% | - | - | - | - | - |
| **Short Term Borrowing Limit** | | | | | | | | |
| **(U.S. $8.0 billion)** [1] | 8,131 | 7,793 | 8,045 | - | - | - | - | - |
| Position | 3,567 | 2,922 | 5,306 | 5,809 | 6,533 | 6,979 | 7,595 | 8,379 |
| Percent used | 44% | 37% | 66% | - | - | - | - | - |

[1] The limits are set each year in consultation with the Department of Finance, and accordingly, there are no limits set for 2013 to 2017.

# 3.8 PROGRESSION OF EDC PLANS FOR 2011 AND 2012

**Table 11: Progression of 2011-2012 Plans**

| *(in millions of Canadian dollars)* | 2011 Plan | 2011 Fcst | 2011 Actual | 2012 Plan | 2012 Fcst |
|---|---|---|---|---|---|
| **Business Objectives** | | | | | |
| Financing and investments business facilitated | 10,200 | 11,175 | 14,627 | 11,000 | 15,575 |
| Insurance business facilitated | 76,000 | 85,200 | 88,192 | 88,100 | 80,400 |
| **Condensed Consolidated Statement of Comprehensive Income** | | | | | |
| Financing and investment revenue | | | | | |
| Loan | 1,067 | 1,005 | 1,009 | 986 | 1,104 |
| Finance lease | 7 | 7 | 7 | 6 | 6 |
| Operating lease | 32 | 21 | 21 | 15 | 20 |
| Debt relief | 6 | 3 | 4 | 1 | – |
| Marketable securities | 57 | 47 | 46 | 47 | 41 |
| Investments | 18 | 19 | 19 | 19 | 34 |
| | 1,187 | 1,102 | 1,106 | 1,074 | 1,205 |
| Interest expense | 168 | 110 | 99 | 103 | 145 |
| Leasing and financing related expenses | 60 | 36 | 32 | 21 | 38 |
| Net Financing and Investment Income | 959 | 956 | 975 | 950 | 1,022 |
| Loan Guarantee Fees | 19 | 34 | 32 | 34 | 39 |
| Net Insurance Premiums and Guarantee Fees | 229 | 230 | 234 | 237 | 221 |
| Other Income (Expenses) | (30) | 67 | 60 | (30) | (33) |
| Administrative Expenses | 300 | 300 | 284 | 303 | 329 |
| | 877 | 987 | 1,017 | 888 | 920 |
| Provision for (reversal of) Credit Losses | 130 | 41 | 125 | (125) | (136) |
| Claims-Related Expenses | 136 | 264 | 247 | 96 | 26 |
| **Net Income** | 611 | 682 | 645 | 917 | 1,030 |
| Other Comprehensive Income | – | – | – | – | – |
| **Comprehensive Income** | 611 | 682 | 645 | 917 | 1,030 |
| **Condensed Consolidated Statement of Financial Position** | | | | | |
| Cash and marketable securities | 3,369 | 3,216 | 3,886 | 3,216 | 3,836 |
| Financing and leasing assets | 28,748 | 25,825 | 27,708 | 26,713 | 30,790 |
| Other assets | 2,433 | 2,709 | 2,002 | 2,698 | 1,981 |
| **Total Assets** | 34,550 | 31,750 | 33,596 | 32,627 | 36,607 |
| Loans payable | 24,625 | 21,850 | 23,570 | 22,306 | 26,463 |
| Other liabilities | 1,570 | 1,607 | 1,770 | 1,574 | 1,358 |
| Equity | 8,355 | 8,293 | 8,256 | 8,747 | 8,786 |
| **Total Liabilities and Equity** | 34,550 | 31,750 | 33,596 | 32,627 | 36,607 |
| **Position Against Statutory Limits** | | | | | |
| Contingent Liability Limit | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 |
| Position against limit | 27,888 | 30,044 | 28,750 | 29,531 | 26,574 |
| Percent used | 62% | 67% | 64% | 66% | 59% |
| Section 14 | | | | | |
| Loans Payable Limit | 121,275 | 119,415 | 122,715 | 124,395 | 123,840 |
| Position against limit | 24,625 | 21,850 | 23,570 | 22,306 | 26,463 |
| Percent used | 20% | 18% | 19% | 18% | 21% |

Note: To conform with the current presentation, Building Under Finance Lease has been reclassified to Financing and Leasing Assets, and Investment in Joint Ventures has been reclassified to Other Assets in all results presented.

## 3.9 OPERATION OF SUBSIDIARY

EDC incorporated Exinvest Inc. in 1995 and acquired shares of Exinvest Inc. in accordance with the applicable provisions of the *Financial Administration Act* and the *Export Development Act*. The authorized objectives of Exinvest Inc. are to establish and/or invest in corporations, partnerships, joint ventures or any other form of unincorporated bodies (financing vehicles), all of which will provide financial assistance for, or to the benefit of, sales or leases of goods, or the provision of services, or any combination thereof.

Exinvest's investment in joint ventures represents its ownership in two entities which were established for the purpose of financing the sale of regional jet aircraft. In 2011, the related aircraft loans were fully repaid and the majority of the proceeds were returned to the shareholders. Over the planning period we intend to dissolve the two entities.

During 2012 and over the planning period, no new financing vehicles and no potential business transactions are anticipated. The following tables set out the consolidated financial results of Exinvest Inc. for the planning period. No Capital Expenditure Plan is provided, as Exinvest Inc. does not anticipate entering into any such expenditure over the planning period.

**Table 12: Exinvest Inc. Projected Statement of Income (2011-2017)**

| *for the year ended December 31*<br>*(in millions of Canadian dollars)* | 2011<br>Actual | 2012<br>Plan | 2012<br>Fcst | 2013<br>Plan | 2014<br>Proj | 2015<br>Proj | 2016<br>Proj | 2017<br>Proj |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | |
| Investment | – | – | 1 | 1 | 1 | 1 | 1 | 1 |
| Income from investment in joint ventures | 1 | – | – | – | – | – | – | – |
| | 1 | – | 1 | 1 | 1 | 1 | 1 | 1 |
| **Expenses** | | | | | | | | |
| Reversal of impairment loss on investment in joint ventures | (11) | – | – | – | – | – | – | – |
| Administrative and other | – | – | – | – | – | – | – | – |
| | (11) | – | – | – | – | – | – | – |
| **Net Income** | **12** | **–** | **1** | **1** | **1** | **1** | **1** | **1** |
| Retained earnings at beginning of year | 20 | 33 | 32 | 33 | 34 | 35 | 36 | 37 |
| **Retained earnings at end of year** | **32** | **33** | **33** | **34** | **35** | **36** | **37** | **38** |

**Table 13: Exinvest Inc. Projected Statement of Financial Position (2011-2017)**

| *as at December 31* <br> *(in millions of Canadian dollars)* | 2011 Actual | 2012 Plan | 2012 Fcst | 2013 Plan | 2014 Proj | 2015 Proj | 2016 Proj | 2017 Proj |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and marketable securities | 76 | 79 | 77 | 80 | 81 | 82 | 83 | 84 |
| Investment in joint ventures | 2 | – | 2 | – | – | – | – | – |
| **Total Assets** | **78** | **79** | **79** | **80** | **81** | **82** | **83** | **84** |
| | | | | | | | | |
| **Liabilities and Equity** | | | | | | | | |
| Share capital | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 |
| Retained earnings | 32 | 33 | 33 | 34 | 35 | 36 | 37 | 38 |
| **Total Liabilities and Equity** | **78** | **79** | **79** | **80** | **81** | **82** | **83** | **84** |

# ANNEX I:
# EXPORT DEVELOPMENT CANADA CORPORATE OVERVIEW

Export Development Canada (EDC) is a Crown corporation which provides trade finance and risk management services to facilitate the trade and investment activities of Canadian companies. EDC revised its vision statement in 2011 to spell out clearly for its stakeholders, starting with its employees, the kind of organization it wants to become. The new vision orients both strategy and everyday conduct. Being the most knowledgeable, the most connected and the most committed partner in trade for Canada is a call to action, and a benchmark to which all employees can aspire.

This reference guide is intended to complement the information provided in the Business Strategy by providing additional background, including information relating to EDC's:

- **Mandate and Operating Principles**, as prescribed under the Export Development Act and the new strategic framework outlined in the Corporate Plan 2013-2017.
- **Legislative Powers and Obligations**, as prescribed under the Export Development Act and the Financial Administration Act.
- **Managerial and Organizational Structure**, the executive team manages the operations of EDC within the strategic goals and objectives as laid out in the Corporate Plan.
- **Board and Committee Structure**, the Board plays a pivotal role in setting the strategic direction of EDC and in ensuring that public policy objectives are met by EDC in the most effective manner. The Board also reviews the development and refinement of the various financial services, approves certain loans, insurance and guarantee contracts, authorizes funding transactions, and monitors EDC's performance.
- **Products and Services**, the solutions which are structured to facilitate the needs of Canadian exporters in an ever changing global trade environment.

This information has been provided in accordance with the Treasury Board of Canada's Guidelines for the Preparation of Corporate Plans.

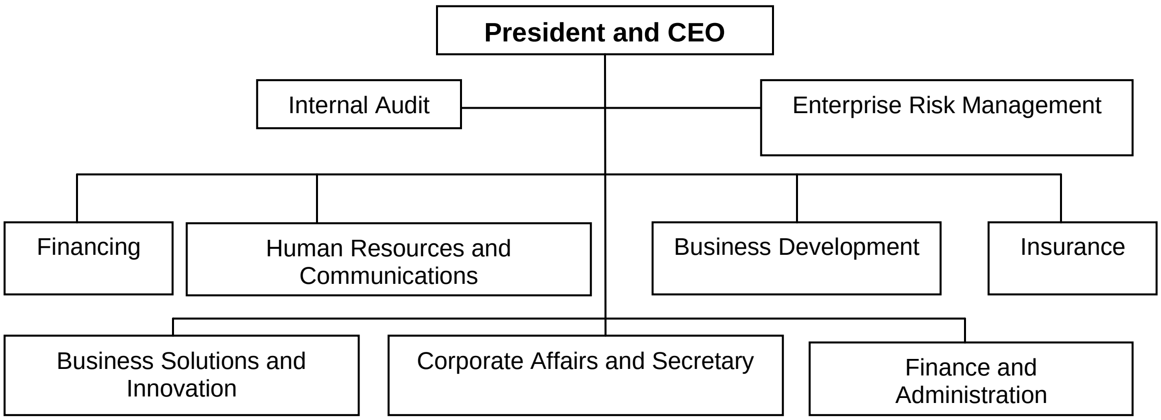
| MANDATE AND OPERATING PRINCIPLES | |
|---|---|
| Mandate | EDC’s mandate was temporarily expanded for a two-year period through the 2009 Budget Implementation Act. In 2012, the Government of Canada extended until March 2013 the temporary powers granted to EDC in 2009. The government also announced in Budget 2011 a review of the regulatory framework that governs EDC's role in the domestic financing market. Subsection 10(1) of the *Export Development Act* was amended to read:<br>“The Corporation is established for the purposes of supporting and developing, directly or indirectly,<br>(a) domestic trade and Canadian capacity to engage in that trade and to respond to domestic business opportunities; and<br>(b) Canada’s export trade and Canadian capacity to engage in that trade and to respond to international business opportunities.” |
| Operating Principles | In 2012, EDC adopted a new framework to guide its decision-making on key corporate initiatives. It will allow EDC to be more responsive and resilient, while focusing all its efforts on improving Canada’s trade and investment performance.<br>EDC’s goal is to create benefits for Canada. Our ability to fulfill this goal requires us to deploy our resources: our people and their unique talents, our financial capital and our technology. To deploy these resources in an optimal manner, we must take into account the four dimensions present in everything we do: business development, operations, risk management and financial sustainability. For the organization to be effective and able to quickly adapt to changes requires that all four dimensions remain well balanced in all our key decisions. Two overarching principles guide our decisions: our Partnership-Preferred Philosophy and our commitment to Corporate Social Responsibility. |

| MANDATE AND OPERATING PRINCIPLES | |
|---|---|
| Statement of Priorities and Accountabilities (SPA) | As a Crown corporation, EDC's Business Strategy must align with and reflect the priorities outlined by the Minister of International Trade in the Statement of Priorities and Accountabilities (SPA).<br>In the SPA, the Minister encourages EDC to deploy its full range of financial services and market knowledge to continue to provide critical support to Canadian exporters and investors, complementing the Government's efforts to expand market access and implement international business development strategies, with particular emphasis on emerging markets.<br><br>As the Government of Canada moves forward in the *Global Commerce Strategy Refresh* (GCS), the Minister asks that EDC to participate on the implementation of this Strategy in close collaboration with business and trade partners across the government community.<br><br>In addition, the Minister provides guidance to EDC in a number of areas. The SPA directs EDC to:<br>• report on the level of access by small business to its suite of financing solutions, and how this is communicated to these clients as well as how it works with the Business Development Bank (BDC) and the private banks to coordinate financing for small business;<br>• ensure the Corporation is fully deploying its capital to support exporters;<br>• work with its counterparts at the Canadian Commercial Corporation (CCC), the Department of Finance and DFAIT officials in exploring the transition of CCC's trade financing activities in Cuba to EDC to better align portfolio responsibilities and allow for the Cuba exposure to be managed as part of EDC's broad trade finance portfolio;<br>• develop a bilateral MOU between DFAIT and EDC that seeks to clarify responsibilities and deepen existing collaboration in order to optimize service delivery to Canadian companies and avoid duplication and minimize any potential confusion for clients with respect to these services;<br>• undertake all necessary due diligence and consultations with government regarding the possible creation of a stand-alone office in India, ensure that requisite controls are in place to ensure this model is collaborative, effectively serves the needs of Canadian exporters, and does not compete with the Canadian financial sector and work closely with department officials to address any outstanding issues prior to seeking government approvals;<br>• deepen partnerships with private insurers such as the Credit Insurance Advisory Group, and continue exploring innovative ways to leverage private sector capacity;<br>• align its practices to ensure its compliance with the revised OECD Common Approaches, proactively expand credit support for eligible sectors under the CCSU, and fully participate in the OECD Export Credit Group and Participants to the Arrangement on level playing field issues, in particular sector-specific financial terms and conditions; and<br>• Following the spirit and intent of the Deficit Reduction Action Plan, continue efforts to identify efficiencies in the 2013-2017 planning period. |

| LEGISLATIVE POWERS AND OBLIGATIONS | |
|---|---|
| Legislative Powers | The *Export Development Act* (The Act) and subsequent regulations, as amended from time to time, provide the legislative basis for EDC's activities. Section 10 of the Act outlines the powers that EDC may exercise in pursuit of its mandate. Transactions supported under Section 10 are considered to be **Corporate Account transactions** as they are funded and supported by the corporation's own balance sheet and income generating capacity, and not through annual appropriations.<br><br>In addition to its Corporate Account activities, under Section 23 of the Act, EDC may be authorized by the Minister for International Trade, with the concurrence of the Minister of Finance to undertake certain transactions of a financial nature to support and develop Canada's export trade. While EDC strives to find ways to structure transactions under its Corporate Account, there are a number of factors which might lead EDC to refer a transaction to **Canada Account**. For instance, the transaction could exceed EDC's exposure guideline for a particular country or involve markets or borrowers representing exceptionally high risks, amounts or financing terms in excess of what EDC would normally undertake. The monies required to discharge Canada Account transactions are made available from the Consolidated Revenue Fund.<br><br>The Act limits Canada Account's outstanding commitments to borrowers and liabilities under contracts of insurance and other agreements to an aggregate of $20.0 billion. As of March 31, 2012 such commitments and liabilities totaled $3.5 billion.<br><br>The Regulations under the Act related to domestic financing and insurance were suspended for a two-year period as part of the 2009 Budget Implementation Act. In 2012, the Government of Canada extended until March 2013 the temporary powers granted to EDC in 2009. The government also announced in Budget 2011 a review of the regulatory framework that governs EDC's role in the domestic financing market. This suspension enables EDC to provide such support under its traditional export mandate without having to seek Ministerial authorization. |

| LEGISLATIVE POWERS AND OBLIGATIONS | |
|---|---|
| Legislative Obligations | Section 25 of the Act requires that the Minister of International Trade, in consultation with the Minister of Finance, initiate an independent review of the provisions and operation of the Act every 10 years. The 2008 review concluded in July 2010 with the passage of the *Budget Implementation Act*, which amends the *Export Development Act* to enable the corporation to open offices in foreign markets, and clarifies existing asset management powers for EDC's corporate account and the Canada Account.<br>To respond to private insurers about EDC's role in the short-term credit insurance market that arose in the review process, the government has established a credit insurance advisory group with a view to promoting partnership and reinsurance support for both domestic and short-term export credit insurance.<br>The outstanding issue stemming from the review is EDC's request to amend its domestic financing regulations in order to better respond to the needs of Canadian global businesses. EDC is currently engaging with the government on whether regulatory amendments should be made to enable EDC to play a longer term role in providing services to companies engaged in integrative trade.<br>In addition to the Legislative Review, a special examination is mandated every five years under the *Financial Administration Act* (FAA) and a report on the findings must be submitted to the Board of Directors. The last special examination was conducted in 2008. The report has been presented to EDC's Board of Directors, the Minister of International Trade and the President of the Treasury Board [a copy of the report has been posted on EDC's webpage].<br>The Act also stipulates that an audit of the design and implementation of EDC's Environmental Review Directive (the Environment Audit) must be undertaken by the Office of the Auditor General (OAG) every five years. The 2008 review was presented to the EDC's Board of Directors and was tabled in Parliament in June 2009 [a copy of the review is available at http://www.oag-bvg.gc.ca]. |
| Accountability to Parliament | The Government of Canada primarily regulates Crown corporations through their enabling legislation and through the FAA. EDC is currently listed under Part I of Schedule III to the FAA, and as such is required to, among other things:<br>submit an Annual Report, a Corporate Plan and an Operating Budget to the responsible Minister;<br>make public the quarterly financial report within 60 days of quarter-end; and<br>Undergo regular audits by the OAG. |

## MANAGERIAL AND ORGANIZATIONAL STRUCTURE



# BOARD AND COMMITTEE STRUCTURE

**Chair of the Board**

**Board of Directors**

**Executive Committee**

- Handling of urgent matters between Board meetings
- Authority to exercise certain Board powers

**Nominating and Corporate Governance Committee**

- Appointment process for CEO, Board Chairperson, and Directors
- Board and Committees effectiveness

**Audit Committee**

- Financial and management control systems
- Financial reporting
- Corporate financing
- Approval of certain major expenditures
- Ethical compliance, including Compliance Officer oversight
- Internal and external audit matters, including audits of the Directive on the environment, and special examinations
- Dividend: review eligibility

**Human Resources Committee**

- HR strategic planning
- Compensation policy and budgets
- Succession planning, including approval of or recommendations to the Board re certain senior appointments
- President's objectives, recommendations re performance, salary and benefits
- Design and compliance of EDC pension plans
- Oversight of pension plan administration

**Risk Management Committee**

- Oversight of management of credit, market and other enterprise risks and of overall capital adequacy relative to EDC's risk profile and Corporate Plan Objectives
- Recommendations to the Board re risk management and capital adequacy policies and strategies
- Environmental compliance
- Review of proposed transactions, and policy limit increases for recommendation to Board

**Business Development Committee**

- Input into strategic policy direction, including recommendations to the Board re: Corporate Plan
- Oversight of analysis of market conditions, and responses
- Monitors performance as against business strategies and policies including review of Canadian Benefits Framework

## EDC'S FINANCING AND INSURANCE SOLUTIONS

**Insurance** protects policyholder against various types of risks.

| Products | CUSTOMER Applications |
|---|---|
| Accounts Receivable Insurance | Protects policyholders against commercial credit risk such as non-payment by their buyers, whether due to insolvency, default, repudiation of goods or termination of contracts, as well as against political risks such as difficulty in converting or transferring currency, cancellation of export or import permits, and war-related risks. Coverage is available for companies of all sizes and some products have been streamlined to meet the needs of SMEs. |
| Export Protect | See Online Products and Tools. |
| Documentary Credits Insurance | Protects banks in Canada confirming or negotiating irrevocable letters of credit (ILCs) issued by foreign banks to exporters of Canadian goods and services. The policy provides insurance against the risk that the foreign bank may fail to pay the insured bank for payments due to the exporter under the ILC. This enables the exporter to look to a bank in Canada for payment rather than the buyer's bank abroad. |
| Contract Frustration Insurance | Tailored coverage used for one-off goods, services and project contracts. |
| Political Risk Insurance | Protects Canadian companies with investments in foreign countries and/or lenders which finance investments pursued by Canadian companies abroad. Traditional policies cover investors or lenders against currency conversion and/or transfer difficulties, expropriation by the host government, and political violence. Availability of political risk insurance can also allow companies to leverage additional financing for projects. The political risk insurance program includes the non-honouring of a sovereign payment obligation to a lender; the nonpayment to an investor of an arbitral award against a sovereign entity; and coverage of the rights associated with mobile assets. In addition, EDC has made a number of changes to the program to accommodate small business transactions. |

## BONDING

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

| FINANCING | |
|---|---|
| Enables Canadian companies to provide their customers with flexible, medium- or long-term financing. EDC offers a variety of structures that can be tailored to meet today's evolving market conditions the world over. | |
| Products | Customer Applications |
| Lines of Credit | Provides a fast and inexpensive means by which exporters can promote sales via pre-arranged financing facilities between EDC and foreign banks or corporations. That is, EDC may lend to a foreign bank for on-lending to buyers of Canadian exports, or EDC can establish a line with a major foreign corporation which is purchasing from one or more Canadian exporters. |
| Loans | Loans between EDC and a buyer/borrower can be arranged for any export transaction. Two basic types of loans are available:<br>Buyer Credit involves a financing arrangement between EDC and the buyer (or a separate borrower on behalf of the buyer) to finance Canadian exports generally related to a specific export contract.<br>Supplier Credit transactions are structured to provide the exporter (supplier) with the ability to provide its buyer with extended payment terms. EDC can also provide pre-shipment financing to exporters, in conjunction with their bank, to finance costs directly related to an export contract.<br>EDC may also provide financing to Canadian companies to support their export business or their foreign investments. |
| Project Finance | Provides limited recourse financing to fund the construction of industrial and infrastructure projects across various sectors in support of Canadian exports to, or Canadian sponsor investment in, such projects. Project sponsors can additionally benefit from EDC's considerable expertise in arranging project finance transactions in cooperation with other lenders. |
| Guarantees | EDC may issue a guarantee to a financial institution to cover loans to foreign borrowers for the purchase of Canadian exports, or to exporters to provide financing to support their export business or foreign investments. |
| Equity and other Forms of Related Investments | EDC may provide equity and/or other forms of related investments (including fund investments) in support of next generation Canadian exporters and to facilitate globalization of existing Canadian companies. This allows EDC to offer broader support to Canadian firms, leverage additional sources of financing, foster cooperation among Canadian firms and their partners, and assist Canadians to compete globally. |

## ONLINE PRODUCTS AND TOOLS

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

| Products | Customer Applications |
|---|---|
| EXPORT Protect | Provides online single transaction insurance coverage on a foreign buyer. |
| EXPORT Check | Provides a credit profile of a foreign buyer and/or a Dun & Bradstreet business information report. |
| EXPORT Able? | Helps potential exporters assess their company's overall readiness to export. |
| EXPORT Finance Guide | Centralizes information about the wide range of solutions for an exporter's financing needs based on their location in the transaction cycle |
| Country Information | Provides comprehensive market intelligence on a variety of regions and countries enabling the user to assess business opportunities outside of Canada. |
| Online Solutions Advisor | A diagnostic tool that helps to identify the appropriate EDC product or service based on the exporter's need(s). |
| Currency Converter | Provides conversions into and from a variety of world currencies, for both current day and past dates (provided by the Bank of Canada). |
| Trade Links | Provides exporters with web-referrals to government and certain not-for-profit providers of export-related information and services. |

# ANNEX II: CANADIAN EXPORT FORECAST BY SECTOR AND MARKET

| SECTOR | MARKET | CAD ($B) 2011 | %SHARE OF TOTAL EXPORTS 2011 | EXPORT OUTLOOK (% GROWTH) 2012 | 2013 |
|---|---|---|---|---|---|
| Agri-food | Developed | 31.3 | 7.5 | 1.7 | 9.5 |
| | Emerging | 12.9 | 3.1 | 26.5 | 11.1 |
| Energy | Developed | 111.4 | 26.6 | 5.1 | 10.9 |
| | Emerging | 3.5 | 0.8 | 18.8 | 4.6 |
| Forestry | Developed | 20.5 | 4.9 | -3.5 | 10.9 |
| | Emerging | 6.5 | 1.6 | -9.5 | 14.5 |
| Ores and Metals | Developed | 58.3 | 13.9 | 0.8 | -2.2 |
| | Emerging | 8.1 | 1.9 | -0.8 | 1.3 |
| Other Industrial Products | Developed | 5.6 | 1.3 | -3.3 | 5.4 |
| | Emerging | 0.7 | 0.2 | -1.0 | 11.8 |
| Chemical, Plastics | Developed | 32.1 | 7.7 | 0.8 | 6.6 |
| | Emerging | 3.1 | 0.7 | 3.5 | 11.0 |
| Fertilizers | Developed | 5.7 | 1.4 | -6.2 | 6.1 |
| | Emerging | 2.9 | 0.7 | 5.4 | 17.4 |
| Aircraft and Parts | Developed | 8.5 | 2.0 | -3.2 | 7.4 |
| | Emerging | 1.7 | 0.4 | 21.9 | 11.8 |
| Advanced Technology | Developed | 11.7 | 2.8 | 5.2 | 2.5 |
| | Emerging | 2.2 | 0.5 | -3.0 | 4.1 |
| Industrial M&E | Developed | 21.9 | 5.2 | 9.8 | 7.7 |
| | Emerging | 4.6 | 1.1 | 25.9 | 11.5 |
| Automotive | Developed | 53.2 | 12.7 | 14.4 | 2.2 |
| | Emerging | 1.3 | 0.3 | 4.8 | 9.0 |
| Consumer Goods | Developed | 7.7 | 1.8 | -8.1 | 6.3 |
| | Emerging | 0.3 | 0.1 | 2.7 | 8.9 |
| Special Transactions | Developed | 3.2 | 0.8 | 0.1 | 8.1 |
| | Emerging | 0.2 | 0.0 | -3.9 | 10.6 |
| TOTAL Merchandise | | 419 | 100.0 | 4.9 | 6.7 |
| Developed Markets | | 371 | 88.5 | 4.1 | 6.3 |
| Emerging Markets | | 48 | 11.5 | 10.9 | 9.6 |

Source: EDC Economics.2011 is actual data, 2012 and 2013 are forecasted (Fall 2012 GEF)