



2014–2018 CORPORATE PLAN SUMMARY

OPERATING BUDGET • CAPITAL BUDGET • BORROWING PLAN

TABLE OF CONTENTS

| | |
|---------------------------------------------------------|----|
| Executive Summary | ii |
| Corporate Plan Highlights | v |
| Chapter 1: The Planning Environment | 1 |
| 1.1 The Global Outlook | 1 |
| 1.2 Canada's Outlook | 3 |
| Chapter 2: The Business Strategy | 5 |
| 2.1 Overview | 5 |
| 2.2 Government of Canada Priorities | 7 |
| 2.3 Our Overarching Principles | 8 |
| 2.4 Investing in Our Core Assets | 10 |
| 2.5 The Four Core Dimensions of EDC's Business | 13 |
| 2.6 Measuring Success: Scorecard | 26 |
| Chapter 3: EDC's Financial Plan | 29 |
| 3.1 Key Business Assumptions | 30 |
| 3.2 Administrative Expenses and Productivity Ratio | 32 |
| 3.3 Planned Capital Expenditures | 33 |
| 3.4 Financial Results | 34 |
| 3.5 Capital Management | 40 |
| 3.6 Statutory Limits | 42 |
| 3.7 Asset/Liability Management and Borrowing Strategies | 42 |
| 3.8 Operation of Subsidiary | 47 |
| Annex I: Export Development Canada Corporate Overview | 49 |
| Mandate and Operating Principles | 49 |
| Legislative Powers and Obligations | 50 |
| Managerial and Organizational Structure | 52 |
| Board and Committee Structure | 53 |
| EDC's Financing and Insurance Solutions | 54 |

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.

Our 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. At the core of our mission is our 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

Overall, the past five years have been challenging for Canadian exporters, particularly manufacturers and smaller companies. But, while some risks remain, momentum is now slowly building in the world economy, largely a result of resurgence in the U.S., the main driver of global growth. As emerging markets' growth continues to outpace the developed world; we're also seeing changing trade patterns. As developing economies have raised their share in world trade, they have increasingly done so by trading with each other, creating massive supply chains and underscoring the importance of Canadian direct investment abroad.

Within this context, conditions are set for better performance for Canadian exports over the planning period; and exports of goods and services are expected to rise 5% in 2013, followed by an additional 5.5% in 2014. That said, projected growth rates indicate that Canada is still losing market share in emerging markets relative to our key OECD competitors; maintaining market share will require much stronger growth for exports and foreign affiliate sales moving forward.

THE BUSINESS STRATEGY

The strategic direction set out in EDC's last two corporate plans remains fully relevant to deliver value to Canadian businesses and create benefits for Canada in today's environment. Our business strategy for the period 2014-2018 is focused on the execution of the initiatives launched in the last two years. The strategy reflects the progress achieved to date on these initiatives. The strategy also reviews opportunities that we see emerging in the trade landscape and that could give rise to future initiatives. We place a particular emphasis and will be redoubling our efforts on small and medium enterprises (SMEs). Nurturing SME growth by developing tools to help them succeed in international markets will be an area of focus for us over the planning period and a theme that is highlighted throughout the Plan. Our priority remains to invest our resources where they will have the greatest impact on Canada's trade competitiveness.

The 2014-2018 Business Strategy is built around two fundamental strategic objectives:

- **Trade Facilitation** – Trade facilitation continues to be our core business. We have over the years developed an offering of effective services and solutions, which we will continue to adapt and improve as the reality Canadian companies face continues to evolve.
- **Trade Creation** – As Canadian companies strive to seize opportunities in a changing environment, we have a critical role to play in identifying opportunities that Canadian companies would not otherwise have been aware of, or able to access. We will leverage our expertise to create trade opportunities for Canadian companies.

In order to achieve these objectives we will stretch in pursuit of our mandate while maintaining a strong capital base. At the same time, we will maintain our commitment to safeguard EDC's reputation and the Canadian brand. To do so, we will take risks that are understood and commensurate with expected benefits.

We will execute on our core objectives by continuing to embrace "The EDC Way." The EDC Way is comprised of five guiding principles: customer centricity, teamwork, empowerment, continuous improvement, and financial sustainability. These principles and the associated behaviours are integral to achieving higher team performance, building greater resilience, and enabling us to deliver high value to our customers.

We remain committed to Corporate Social Responsibility (CSR) and to a Partnership-Preferred Philosophy. Our 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, we will use our capital strength without other financial players but will, where relevant, look to create conditions that will favour the participation of the private sector. Our commitment to CSR is founded on our goal 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.

The 2014-2018 Business Strategy highlights key initiatives that relate to the four dimensions of our business:

BUSINESS DEVELOPMENT

To us, 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 our strategic initiatives launched in 2012: Aerospace, Clean Technologies and India. The Business Development section of the Plan also profiles emerging sectors where we see potential growth for Canadian exporters and how our activities in Canada and our international representations are helping Canadian exporters and investors succeed.

OPERATIONS

We operate on commercial terms, 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, we will adjust some of our offerings to meet the changing needs of Canadian exporters. We will also work closely with our various government and private sector partners to leverage their knowledge and assets in support of Canadian companies.

RISK MANAGEMENT

Our 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. Moving forward we plan to finalize our enterprise risk management framework, including a risk appetite statement, and conduct a review of our credit and market risk policies.

FINANCIAL SUSTAINABILITY

Our commitment to financial sustainability and a continual focus on efficiency enables us to effectively respond to the demands of our customers today, without compromising our ability to serve Canadian global businesses in the long-term.

THE FINANCIAL PLAN

Our ability to deploy lending and insurance solutions to Canadian global businesses is dependent on our commitment to sound financial management. The 2014-2018 Financial Plan outlines how EDC is managing its administrative and operating expenses. It describes how the changes to our 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. The Financial Plan also provides details on our key business assumptions which underlay our projected financial performance. Chapter 3 includes Statements of Comprehensive Income, Statements of Financial Position, Statement of Changes in Equity, Statements of Cash Flows and planned capital expenditures for 2014-2018.

CORPORATE PLAN HIGHLIGHTS

The 2014-2018 Corporate Plan highlights the slowly building momentum in the world economy, largely a result of resurgence in the U.S. As a result, conditions are set for better performance for Canadian exports over the planning period.

However, there are still numerous risks present that we need to be mindful of and incorporate in our planning. We have not identified major shifts facing Canadian exporters and investors from last year's plan and, as a result, the focal point of our plan is the execution of initiatives outlined in previous planning cycles. We will also sharpen our focus on small and medium enterprises and be ready for any changes in the global environment. With our strong capital base, we will continue to fulfill our important mandate of supporting Canada's export trade and stretch to support Canadian exporters so that they can succeed in new markets.

READY FOR ACTION

Gearing up for growth in world markets, particularly in the U.S. and emerging economies to help exporters seize opportunities when they arise.

STRATEGIC OBJECTIVES

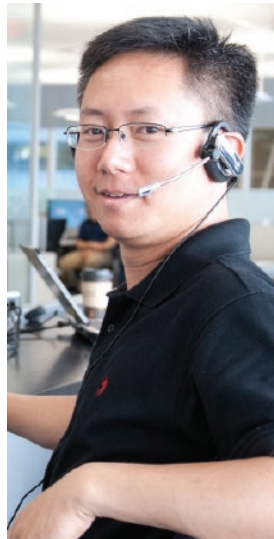
Commitment to our core strategic objectives of trade facilitation and trade creation.

SMALL AND MEDIUM ENTERPRISES

Nurturing SME growth and helping them find success in international markets is a theme throughout the Plan.

PARTNERSHIP PREFERRED

Partnering with the private sector will remain one of our core tenets. We will also work with government partners, such as BDC and the Trade Commissioner Service, to ensure that we all work to contribute to Canadian export success in a collaborative and complementary way.



A COMMITMENT TO CORPORATE SOCIAL RESPONSIBILITY

Continue to promote Canadian values and a level playing field for our exporters, with an emphasis on the risks of bribery and corruption.

BUILDING ON SUCCESS

of pull strategies, we will continue to develop relationships and work to integrate more SMEs into international supply chains.

PROGRESS on our three primary strategic initiatives:

1. INDIA: leverage our project finance participation and direct project equity to gain market access for Canadian exporters and investors.
2. CLEAN TECHNOLOGIES: growing early stage companies to greater success.
3. AEROSPACE: making sure that SMEs have the resources to integrate into supply chains and continuing to support sales of Canadian products.

POSITIONING FOR THE FUTURE

continuing to mobilize for high growth areas identified in last year's corporate plan, including oceans, natural resources, and preparing for potential growth areas, such as healthcare and Africa.



SELF SERVE INSURANCE

Through the credit insurance transformation project, we are investing in technology that will enable us to offer additional web services to reach more SMEs and improve efficiency.

TAKING ON RISK

We will stretch to take on risk that corresponds with expected benefits and fill gaps in the marketplace.

PRODUCTIVITY AND EFFICIENCY

Continued productivity ratio target of 24-26%. Productivity gains achieved within the organization enable us to invest in innovation and modernize our technology, leveraging our expertise to create trade opportunities for Canadian companies.

CAPITAL ADEQUACY

We revised our Capital Adequacy policy to ensure that we have adequate capital to meet our current and future business demands, while being able to withstand unpredictable risks.

CHAPTER 1: THE PLANNING ENVIRONMENT

1.1 THE GLOBAL OUTLOOK

Despite the fact that we are five years beyond the financial crisis, we saw continued global market pessimism in 2013. But momentum in the global economy is beginning to build, particularly in the U.S. housing market, which has spurred a surge of U.S. residential construction, a sustainable rise in consumer spending and a ramp-up in business investment.

This recovery-style growth is helping to get the world economy going again and we expect to see world growth of 4.1% in 2014, reaching 4.3% in 2018.

This growth is also beginning to mitigate some of the key risks that have weighed on the world economy during this protracted crisis and should continue to do so as long as growth continues to build and spread. However, in planning for the future, we have to be mindful that some risks still threaten this outlook; such as adverse fiscal and financial market developments, price shocks, geopolitical disturbances and surprise swings in specific economies. Furthermore, many of the world's developed economies are emerging out of the recession with much heavier public debt loads; specifically Japan and Europe. While the Euro zone crisis has subsided somewhat, tighter access to credit will continue to challenge the area throughout the planning period and is expected to restrain growth somewhat.

CHANGING TRADE PATTERNS

In the past two decades, new players have risen to prominence in world trade, most notably large developing countries and rapidly industrializing Asian economies. Currently, emerging markets are generally growing at about 6% annually and account for nearly half of world trade, while developed nations are seeing much slower growth. Furthermore, certain markets, including India, are expected to exceed this growth, reaching 7% or more within five years. And currently, five of the world's highest growth countries are in Africa, presenting many opportunities for Canadian expertise moving forward.

As developing economies have raised their share in world trade, they have increasingly done so by trading with each other, a trend known as South-South trade. South-South trade currently accounts for about 22% of world trade, and this share is expected to easily surpass 25% within five years, while the North-North share of global trade will continue to decline.

And most South-South trade is the extension of global supply chains into these markets. As countries become more integrated into global production networks, they are capturing more global trade, making intermediate goods that are shipped to other countries for final assembly, underscoring the importance of Canadian companies accessing these South-South supply chains throughout the planning period.

We are also seeing more organic growth in trade across these growth markets, with a growing middle class and rising incomes creating demand for many consumer goods. Likewise, investment in areas such as telecoms, healthcare, energy and infrastructure is feeding trade flows between emerging markets, opening up supply chains which could present many opportunities for Canadian companies.

CHANGING GLOBAL DEMOGRAPHICS

Demographic models point to 2016 as a pivotal year when the Canadian population of 15 to 55 begins a five-year decline. This trend is expected to bring about a risk of access to skilled labour, reinforcing the need to invest in machinery and productivity to spur innovation. However, our counterparts in OECD countries are experiencing the same trends, and aging populations in the developed world could present growing opportunities in healthcare needs and associated services and technologies.

Emerging markets with their younger populations and growing middle class consumers, will present opportunities for Canadian companies. Increasingly, these new wealthy emerging market citizens will demand higher value-added goods, such as agri-food, machinery and equipment, technology products, aerospace and auto parts, which Canada produces.

These same markets are also experiencing rapid global urbanization. Today, about 50% of the world's population lives in cities. Within the next two decades that number is estimated to grow to 70%, driven mostly by Asia, which will bring massive opportunities for infrastructure services, including mass transit, airports, roads, rail hubs, ports and power. India alone is targeting close to \$1 trillion in infrastructure spending throughout the planning period, and they will need partners and foreign investment to meet these demands.

At the same time, many of these same markets are eager to address rapidly deteriorating environmental conditions. A huge global appetite for natural resources, along with increasingly unpredictable climatic disasters and the adoption of government regulations in many countries that encourage or mandate the use of green technology, is creating a lucrative global market for cleantech products and services, many of which are small businesses. For example, it's estimated that resource-hungry China will spend close to \$300 billion over the next five years in order to counter climate change, an area where Canada has a great deal of expertise.

GLOBAL FINANCIAL INDUSTRY

Another trend we are monitoring is the shifting nature of the global financial industry. As a result of the economic crisis, structural changes to the global financial industry, such as Basel III, are compelling European banks to preserve capital and lower their risk criteria. This could create opportunities in the emerging market space for Canadian financial institutions.

In summary, while there remain risks which we will incorporate into our planning, we are seeing definite signs of improvement in the global economy. Key to the global recovery is the upswing in U.S. economic activity. A buoyant private sector is finally giving a lift to consumer confidence, and growth should pick up to 3.3% next year. This bodes particularly well for Canadian SMEs, many of whom suffered the most since the global recession. That said, the fastest growth is still within emerging markets, underscoring the importance of trade diversification for Canadian companies moving forward.

1.2 CANADA'S OUTLOOK

Within this global context, conditions are set for better performance for Canadian exports over the planning period.

Canadian exports of goods and services are expected to rise 5% in 2013, followed by an additional 5.5% next year, with the largest gains in metals and ores, as well as the forestry sector and machinery and equipment. Aerospace exports are also forecast to gain momentum, as strengthening orders together with the introduction of the C-Series are forecasting double-digit growth in 2014.

The CAD is forecast to average USD 0.96 cents in 2014, declining to 0.93 cents by 2018, which will provide some relief for exporters, particularly small businesses that have been struggling with the dollar at parity. With resurgence in the US, these small businesses should prepare now for the growth that will come.

Early in the planning period, we can expect Canadian manufacturing exports to stabilize and then experience strong, steady growth through the out years, with most of the downside behind us as a growing number of manufacturers have taken the steps to improve their competitiveness and adapt to a higher CAD.

Long-term global demand for Canadian commodities and resource-based goods and services should continue, although these products are not immune to the ups and downs of the business cycle. Furthermore, the Government of Canada has made development of Canada's north a priority, with more than 600 major resource projects planned over the next decade with a value of \$650 billion, which should create many opportunities for the Canadian extractive sector and related industries.

IMPORTANCE OF CDIA

As the global economy becomes more integrated and south-south trade continues to outpace global trade, Canadian direct investment abroad (CDIA) becomes increasingly critical to the health of the Canadian economy and the best way for Canadian exporters to access this changing global economy.

As a positive sign, Canada's foreign affiliate sales (FAS) have been steadily outgrowing exports for over a decade, becoming a significant source of wealth for Canada and reinforcing the trade diversification model. While the U.S. is Canada's prime FAS location, this too is changing as sales by affiliates in emerging markets doubled in the same period.

That said, projected growth rates indicate that Canada is still losing market share in emerging markets relative to our key OECD competitors; maintaining market share will require much stronger growth for exports and FAS moving forward.

Throughout the planning period, we do expect to see more diversification into emerging markets. Global value chains will play a bigger role in Canadian exports going forward, as they become increasingly more important to Canadian trade, particularly as a key driver behind growth in south-south trade. In fact, through 2017, average growth of Canadian exports to emerging markets is expected to be nearly twice as fast as growth to developed markets and, if the same circumstances persist, the share has the potential to rise to 22% by 2020.

And the Government of Canada is currently pursuing free trade agreements with many of these key markets, such as the Trans-Pacific Partnership which aims to grow Canada's growing presence in the Asia-Pacific. Others include a Comprehensive Economic Partnership Agreement (CEPA) with India, as well as the Comprehensive Economic and Trade Agreement (CETA) with the European Union, which was agreed to in principle in October 2013. Trade liberalization of this nature should increase the cross-border flow of goods and services and lay a positive foundation for export growth moving forward. EDC is ready to support Canadian exporters when this happens.

In this environment, many Canadian private-sector providers of insurance and financing services are returning to the market, a positive sign for Canadian exporters. As a result, while we expect exports to grow, demand for our facilitation may not keep pace; and the unusual increase in demand for our services experienced during the recession, particularly in 2009 and 2011, should moderate over the planning period. We will continue to complement the private sector in support of Canadian businesses, and focus on areas where we are needed most.

Overall, the past five years have been challenging for Canadian exporters, particularly manufacturers and smaller companies. But, while some risks remain, momentum is now slowly building in the world economy, largely a result of resurgence in the U.S., the main driver of global growth. That said, the continued growth of emerging markets and south-south trade and supply chains has changed the nature of international trade, making it more integrated than ever. In this global context, it is becoming increasingly critical for Canadian companies to invest abroad, and penetrate these burgeoning supply chains in order to sustain market share of global trade and remain competitive.

In summary, all of these factors help to shape EDC's business strategy for the planning period. Creating opportunities for Canadian companies will require that we generate new capacity through productivity improvements and technology investments, expand our own global footprint and work well with our government partners, including the Trade Commissioner Service (TCS), Business Development Bank of Canada (BDC) and Canadian Commercial Corporation (CCC). We will also continue to explore and implement ways of enhancing our financing and insurance offering to small businesses, critical engines of growth for the Canadian economy.

CHAPTER 2: THE BUSINESS STRATEGY

2.1 OVERVIEW

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 — is the foundation of our business strategy.

The strategic direction set out in EDC's last two corporate plans remains fully relevant to deliver value to Canadian businesses and create benefits for Canada in today's environment. Our business strategy for the period 2014-2018 is focused on the execution of the initiatives launched in the last two years. The strategy reflects the progress achieved to date on these initiatives. However, because even a stable environment requires innovation, the strategy also reviews opportunities that we see emerging in the trade landscape and that could give rise to future initiatives. Our priority remains to invest our resources where they will have the greatest impact on Canada's trade competitiveness. As a result, we will direct some of our energy and resources towards providing additional support to small and medium sized enterprises (SMEs) by expanding our product offerings or introducing new offerings where appropriate.

We create value for Canadian businesses by offering comprehensive solutions to their international trade needs. This means that, in addition to delivering unique financial services, we turn our knowledge of international trade finance and our business connections around the world into advice and services that help them be successful.

Trade has changed significantly over the past few years and EDC has evolved with it. We have built a greater international presence and stronger relationships with important global players. This has allowed us to help Canadian companies enter into new markets or break into new supply chains. Our vision as an organization is to be the most knowledgeable, the most connected and the most committed partner in trade for Canada. We will continue to work hard to deliver on this vision. Over the next five years, we plan to be active players in the markets and sectors that offer the greatest potential growth for Canada; to anticipate and adapt to the new trends and practices that shape the financing of trade and the management of trade risks; and to stay well-connected to a network of key global players and influencers. In doing so we will strengthen our role as trusted advisors to Canadian businesses in our areas of expertise – financial services and trade – and we will be an important contributor to the success of Canada's Global Commerce Strategy. Another important factor in refining our direction is the Statement of Priorities and Accountabilities that we receive annually from the Minister of International Trade. The statement outlines the government's priorities and how EDC can align itself with them.

The 2014-2018 Business Strategy continues to be built around two 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. We have over the years developed an offering of effective services and solutions, which we will continue to adapt and improve as the reality Canadian companies face continues to evolve. Trade facilitation continues to be core to our business.
- **Trade Creation** – As Canadian companies strive to seize opportunities in a changing environment, we have 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 us to invest in innovative activities, leveraging our expertise to create trade opportunities for Canadian companies.

In order to achieve these objectives we will stretch in pursuit of our mandate while maintaining a strong capital base. At the same time, we will maintain our commitment to safeguard EDC's reputation and the Canadian brand. To do so, we will take risks that are understood and commensurate with expected benefits.

While executing on our objectives, we will pay particular attention to SMEs. SMEs are critical to the success of the Canadian economy and a decline in their numbers is a reality that cannot be overlooked. Nurturing SME growth by developing tools to help them succeed in international markets will be an area of focus for us over the planning period and a theme that will be highlighted throughout the Plan.

We will execute on our core objectives by continuing to embrace “The EDC Way,” which is comprised of five guiding principles: customer centricity, teamwork, empowerment, continuous improvement, and financial sustainability. These principles and the associated behaviours are integral to achieving higher team performance, building greater resilience, and enabling us to deliver high value to our customers.

EDC'S STRATEGIC DIRECTION

Our strategy is focused on balancing the four dimensions of our business. This balance between business development, operations, risk management and financial sustainability allows us to respond to the needs of Canadian exporters and create lasting benefits for Canada. Three main organizational assets support this important work: our people, financial capital and technology, and all of this work is guided by two overarching principles, our partnership-preferred philosophy and our commitment to Corporate Social Responsibility.

2.2 GOVERNMENT OF CANADA PRIORITIES

Engagement with Crowns and Other Government Partners

In the past few years we have worked closely with some of our partner crown corporations to ensure that we align to best support Canadian businesses. We will continue to work in partnership with crown corporations in a number of areas and will leverage their expertise where possible. We also work closely with a number of government partners, not only at the federal level, but also with provincial governments in areas such as innovation for SMEs.

Global Commerce Strategy

The Government's refreshed Global Commerce Strategy (GCS) identifies markets around the world where Canadian opportunities and interests have the greatest potential for growth and for generating innovation and high value-added jobs in Canada. We plan to work collaboratively with the Department of Foreign Affairs, Trade and Development (DFATD) to ensure alignment with the GCS by supporting Canadian exporters in these priority markets.

Defence Procurement Strategy

We will align our efforts in the defence and security sector with the Government's Defence Procurement Strategy. We are working with our government partners, including the Canadian Commercial Corporation, to ensure the success of this sector. We plan to collaborate with other crowns and departments on initiatives, where possible, to best serve Canadian exporters in this sector.

Domestic

A new regulatory framework governing our activities in the domestic market will enter into force in 2014. After bringing capacity to the domestic market during the four years of financial crisis and tentative recovery, we are now able to refocus on our international business. Our role is to help Canadian companies successfully compete in global markets. To allow us to do so, the new regulations will give us some additional flexibility to address Canadian exporter needs in the locale most effective to them. This sometimes means providing our services here in Canada in support of their international business. Under the new regulations we will be expected, when entering into domestic transactions, to act in a manner complementary to the services provided by private sector financial institutions and the Business Development Bank of Canada (BDC). The experience we have developed since 2009 under our temporary domestic powers, combined with our preference for working in partnership, position us well to deliver significant value to Canadian businesses engaged in international trade under this new framework. We will assist our existing clients who may be affected by the regulatory changes during a transition period between when the regulations are approved and come into force.

Deficit Reduction Action Plan, Bill C-60 and Crown Corporation Pension Reform

We will continue to adhere to the spirit and intent of the Government of Canada's Deficit Reduction Action Plan. We will also support the implementation of measures related to Crown Corporations, including Bill C-60.

In 2012, we introduced a defined contribution component to our pension plan for all new employees, reducing future pension funding volatility, while maintaining an attractive and competitive compensation offering for employees. We also modified our pension offering, eliminating early retirement provisions for defined contribution members and increasing contributions for defined benefit members with the goal of more balanced cost-sharing. These measures contribute to our focus on financial sustainability. The Government of Canada's 2013 Budget announced a commitment to align the pension plans of Crown corporations with key features of the Public Service Pension Plan. We will continue to work closely with the Government to ensure that EDC is in alignment with the proposed reform. In our 2015-2019 Corporate Plan we will provide more detailed information on our implementation strategy.

2.3 OUR OVERARCHING PRINCIPLES

EDC's decisions are guided by our Partnership Preferred Philosophy and commitment to Corporate Social Responsibility.

A PARTNERSHIP PREFERRED PHILOSOPHY

We believe that working with private sector partners to combine our expertise and risk capacity is the most efficient way to expand our reach and have a greater impact on more Canadian businesses. As such, we complement the activities of private-sector financial institutions whenever it can bring greater value to the customer. For example, in 2012 90% of our financing transactions were done in partnership with private sector financial institutions.

Partnering with the private sector generally means sharing risks on commercial terms, where our level of involvement depends on the availability of private-sector capacity. For example, when credit is harder to access, we partner with the private sector to provide creditworthy companies with the capacity they need. Similarly, as the private sector returns, we may reduce or withdraw our capacity.

That said, we will also provide financial solutions when gaps exist or private sector capacity or risk appetite is limited. Examples would include foreign buyer financing in challenging markets, transactions with longer tenors in specific sectors, and financial solutions for "breakthrough" companies such as cleantech companies or small businesses. We do so with the expectation that our involvement will pave the way for future private sector involvement and we strive to create the conditions to facilitate this.

Looking ahead to 2014 and beyond, we are committed to working with the private sector to ensure that Canadian companies have access to the financial services they need to grow internationally. This will include continuing the Lending Practitioners' Forum, a joint consultative body with Canada's private financial sector which is helping build partnerships between organizations by identifying market opportunities and challenges and discussing issues that impact trade and international finance.

In the insurance sector, we will continue to participate in the Credit Insurance Advisory Group (CIAG), a Government of Canada-led initiative, and one of the most important ways we maintain and grow our partnership with private-sector credit insurers. We are also an active member of the newly created Receivables Insurance Association of Canada.

A COMMITMENT TO CORPORATE SOCIAL RESPONSIBILITY

We strive to meet the expectations of Canadians to act as a good corporate citizen, and uphold Canada's values at home; while ensuring that Canadian businesses continue to succeed internationally.

In the past few years, the CSR landscape has shifted considerably as the international trade environment becomes more integrated and complex, which is why we have developed strong principles, policies and procedures for managing CSR issues.

For example, prior to our launch of a strategic initiative to help more Canadian companies capitalize on infrastructure opportunities in India we conducted in-depth due diligence of the CSR risks of doing business in the country. We concluded that we can do meaningful business in the market, by following our policies and procedures, particularly in choosing our partners. Through the planning period we will apply this model whenever we are faced with challenging situations.

Anti-corruption

In February 2013 the Government of Canada tabled amendments to the *Corruption of Foreign Public Officials Act* (CFPOA) to further deter and prevent Canadian companies from bribing foreign public officials.

Our own due diligence for anti-corruption, developed over years of experience, includes policy guidelines addressing areas such as the process for reviewing transactions; interactions with law enforcement authorities and treatment of companies with previous convictions; procedures such as company screening, enhanced due diligence check lists and anti-corruption declarations; staff training; and an outreach program to increase awareness in the Canadian business community about the risks of bribery and corruption.

Throughout the planning period we will continue our efforts to raise awareness among Canadian exporters about the risks of corruption and bribery in international markets and use our expertise to help exporters strengthen their due diligence procedures and anti-corruption programs.

International Standards: Leveling the Playing Field

Through international direct investment, multinational enterprises (MNEs) bring substantial benefits to home and host countries. At the same time, there are public concerns about the social, economic and environmental impact of MNE activities on the societies in which they operate. To address these concerns, we have adopted several international best practices for assessing environmental and social risks, such as the Equator Principles (EPs) and the IFC Performance Standards. Revised in 2011, the OECD Guidelines for MNEs also address these concerns by providing recommendations on voluntary principles and standards for business conduct, consistent with domestic and international laws, under the premise that internationally agreed principles can help prevent misunderstandings and build an atmosphere of confidence and predictability among business, labour, governments and society. We will continue to promote these guidelines with our customers.

Throughout the planning period, we will also continue to work with our peers to promote a more consistent application of international standards for assessing environmental and social risk, to ensure that Canadian exporters and investors have a level playing field with their international competitors. For example, the Equator Principles, which form an important part of our own CSR framework, launched a revised framework, EP III, which took significant steps towards greater transparency and consistent implementation practices. EDC, the first export credit agency (ECA) and Canadian financial institution to be represented on the EP Steering Committee, played an active role in the revisions, which we have since implemented and will continue to promote.

2.4 INVESTING IN OUR CORE ASSETS

In order to help Canadian businesses take advantage of global trade and investment opportunities and generate benefits for Canada, we will continue to invest in our people and technology, while prudently managing our financial capital.

Continuous investments in these three critical areas enable us to anticipate risks, adapt to unforeseen events and achieve our strategic objectives.

A FOCUS ON PEOPLE

Canada's population is aging; and with labour markets expected to tighten significantly by 2016, highly skilled labour will be in short supply. In this environment, having an accurate understanding of why employees opt to work for EDC, and what inspires them to remain and to be highly engaged will be a requisite competitive advantage.

In 2012 we completed an examination of the future of work, our evolving business environment, workforce and legislative trends and demographics. This research gave us a better understanding of the workforce risks that may impact our ability to deliver on our business objectives, while providing a solid foundation for a more predictive, multi-year plan to attract, develop and manage our talent. Priorities of this plan include ensuring our ability to attract and retain Generation Y talent; developing a more predictive workforce planning process; ensuring diversity of our employee population, including external global perspectives; and continuing momentum for our cultural transformation, “The EDC Way”.

Attracting Younger Talent

Just less than 9% of our workforce is under the age of 30, yet this segment of younger employees, known as Generation Y, is critical to shaping the character of our organization five years from now and meeting the demands of Canada’s exporters in the future. To address this challenge, we plan to attract more early-career candidates, and will strive to increase our population of Generation Y employees to approximately 20% in the next three years.

Workforce Planning

Identifying the skills and employee behaviours that will be critical in the future will ensure that we can continue to meet the needs of our customers. We are developing a predictive workforce planning program that will ensure we maintain the right balance of strong technical skills and behavioural competencies.

Diversity

Over the planning period, we will continue to ensure diversity within our employee population, an effort that will enhance employee engagement, foster innovation and encourage the kind of global mindset critical to an organization focused on international trade. We also remain dedicated to increasing our capabilities in both official languages and to the development of women in leadership.

Cultural Transformation

Finally, to secure our evolution as a high performing organization, we are committed to maintaining the momentum of a cultural transformation known as “The EDC Way”. Its principles of Customer Centricity, Empowerment, Teamwork, Continuous Improvement and Financial Sustainability provide the model for how we work together – collaboratively, efficiently, with a focus on delivering more and better benefits to Canada.

Contributing to our Financial Sustainability

Moving forward, we must position EDC to thrive in a tightening, increasingly diverse and global labour market where specialized skills are expected to be in short supply. All of which will be done while maintaining our focus on performance management and financial sustainability, and operating within our established productivity ratio. Headcount will remain relatively flat during the planning period and efforts will continue to ensure that employment programs are attractive, affordable and appropriate. As revenues permit, and working within the productivity ratio target, additional resources may be leveraged to ensure effective responses to strategic priorities, such as our focus on SMEs.

LEVERAGING TECHNOLOGY FOR SUCCESS

Our information technology (IT) systems must be secure, efficient, flexible, properly governed and aligned with our business plans and activities, particularly as we implement technology investments with an emphasis on transformational projects and on better serving the SME segment.

System Modernization

We have undertaken a large-scale, multi-year program to modernize key business systems and software architecture in order to improve customer service, meet high demands for particular technologies by employees and stakeholders, mitigate the risk of service disruptions and address the risk of technology obsolescence. The complexity of this modernization program represents new risks, and particular attention will be paid to managing these risks and establishing strong project governance.

In keeping with industry trends and the future of technology, these efforts will also provide more flexibility to our transacting systems, enhance collaboration and productivity, and give employees better access to the information required to make timely decisions, and ensure that ‘work can happen anywhere.’

Investing for the Future

Modernizing these legacy business systems will require an increase in capital investments over the planning period.

The level of annual investment will increase in the early years of the planning period and decrease after legacy systems have been replaced, returning to historical norms in 2017 and beyond. Once implemented, new systems will lower our operating and maintenance costs. For further information on the impact of this undertaking on our capital and operating expenses, please refer to the Financial Plan.

We will also continue to invest in technology that will help us better serve a broader range of small business customers through the web and enhance web security. Specific initiatives such as the Credit Insurance Transformation are presented in greater detail in the Business Strategy.

MANAGING OUR CAPITAL BASE

Our ability to deploy financial capital to the fullest extent over the long term while remaining financially self-sufficient is critical to fulfilling our public policy mandate. Our Capital Adequacy Policy supports the Business Strategy by ensuring that we have adequate capital to meet our current and future business demands, while being able to withstand unpredictable risks. The policy also provides for the return of excess capital over time to the Government of Canada via dividends. Since the policy was first implemented in 2006, we have paid \$2.9 billion in dividends to the government.

The Capital Adequacy Policy is discussed in Chapter 3 of this plan, and includes information on our dividend methodology change, how we will continue to make sure our capital meets best OSFI practices and how we ensure we have the necessary capital to respond to the needs of our customers.

2.5 THE FOUR CORE DIMENSIONS OF EDC'S BUSINESS

The following sections profile the initiatives we will execute over 2014-2018 that will ensure we deliver on our strategic objectives to serve the needs of Canadian business internationally and have a positive impact on Canada's trade.

These will be detailed within the four core dimensions of EDC's business: business development, operations, risk management and financial sustainability.

BUSINESS DEVELOPMENT DIMENSION

As the global environment continues to evolve, we will continue to monitor the key issues affecting Canadian business so corrective strategies and actions can be implemented in a timely manner. Our market knowledge and experience will allow us to support Canadian companies in this environment while mitigating risk and ensuring our financial sustainability.

In this environment, our focus will be on the execution of initiatives outlined in previous corporate plans. We are continuing to mobilize for high growth areas identified in last year's corporate plan, including oceans, natural resources, and preparing for potential growth areas, such as healthcare and Africa.

TRADE FACILITATION AND CREATION

Over the past several years, our business development model has matured towards increasingly bringing market opportunities to customers. This means going beyond simply providing our financial and risk mitigation solutions and proactively looking for trade prospects which might not otherwise be known or accessible to the exporter. As the traditional markets for Canadian exporters constricted, we worked hard to identify new opportunities for Canadian companies. This is accomplished by placing a stronger emphasis on supporting Canadian direct investment abroad, and leveraging protocols, pull facilities, and targeted trade connections.

Canadian Direct Investment Abroad

More and more Canadian companies are investing in foreign affiliates to better respond to the needs of a global clientele. We estimate 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.¹ This overseas investment is referred to as Canadian Direct Investment Abroad (CDIA).

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. In 2012, we facilitated \$6.6 billion of CDIA-related business. We have expanded our product offerings to better facilitate CDIA and will continue to examine our offerings over the planning period to ensure they meet the needs of our customers.

Protocols

Foreign multinationals with operations in Canada provide an important contribution to Canada's economy. The multinational's activities in Canada will often be part of the company's overall value chain. Foreign multinationals present in Canada often 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, we undertake 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 Canadian R&D expenditures and Canadian investment levels.

Investments (Equity) Program

We provide 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. Our participation in equity funds helps connect Canadian companies to emerging international business opportunities. This is done through our connect strategy, which introduces potential Canadian customers to procurement opportunities by using our relationships, networks and knowledge.

¹ Estimate based on EDC's Trade Confidence Index Survey, conducted during the Spring and in the Fall of 2012.

Pull Facilities

Often, Canadian companies, particularly smaller ones, don't have the size or international visibility to be included in the procurement plans of large foreign buyers. By participating in financing facilities, which we call "pull facilities," for certain targeted foreign companies, EDC is able to create opportunities for these Canadian suppliers.

Essentially, a pull facility is when EDC makes a financing commitment (often in the form of a loan) to a foreign buyer, which is then leveraged to influence the foreign buyer to procure from Canadian suppliers. Although there is no legal or contractual obligation for the buyer to procure or pull exports from Canada, there is a commitment by the foreign buyer to work with EDC in developing trade from Canada through introductions and matchmaking. DFATD is a key collaborator in the planning and execution of such match-making activities. Two-thirds of foreign buyers involved in pull facilities are from emerging markets including Mexico, Chile, India, China, Brazil and Russia.

The benefits to Canada are measured by the number of Canadian companies that are able to grow their international sales and the revenue from export contracts that come from a pull. In 2012, existing pulls supported \$6.7 billion in Canadian exports, for about 860 Canadian companies, a 20% increase in companies served from 2011. These benefits were the result of pulls established 3 to 5 years ago. Generally, as the relationship with the foreign buyers grows over time, we gain a better understanding of their procurement needs and the match with Canadian capability and engage in match-making activities, which results in more 'traction' on an individual pull and more procurement from Canadian suppliers. The majority of Canadian companies that benefited from these facilities in 2012, about 90%, were SMEs, primarily in the extractive, information and communication technology (ICT) and transportation sectors. As of December 31, 2012, EDC had 116 active pull facilities. In 2012, we initiated new pull loans valued at \$3 billion.

Overall, as of December 31, 2012 the cumulative (2003 – 2012) signings consisted of approximately \$18 billion, with 207 foreign buyers through 267 pull facilities, which has benefited 3,424 Canadian exporters, about 90% of which were SMEs, generating nearly \$24 billion in exports.

Targeted Trade Connections

As a necessary complement to Pull facilities, Protocols and equity, we leverage our relationships with foreign buyers to introduce them to competitive Canadian suppliers, something that is very challenging to accomplish for many of these smaller Canadian businesses. In 2012 we participated in 38 match-making events in collaboration with partners such as the Trade Commissioner Service (TCS) connecting more than 400 Canadian suppliers with more than 100 large foreign buyers.

Getting Closer to Our Customers

To succeed in today's international marketplace, Canadian companies need to invest in building an on-the-ground presence in key southern supply chain hubs to offer things such as just-in-time supply and after-market service. Our network of foreign representations helps deepen 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 us to identify opportunities for Canadian supply and investment, and offer market-specific financial solutions that benefit Canadian companies.

As we consider future opportunities to expand our international footprint, we will continue to engage with the Department of Foreign Affairs, Trade and Development (DFATD) on how to position ourselves to effectively serve Canadian companies in markets around the world. The process will involve identifying markets and locations with the greatest potential for Canadian exports. The nature of EDC 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. In addition, our international representations are not static; we will evolve our offerings to respond to the needs of our customers, as we did with the transition of part of our Peru representation to Colombia in 2013, and the closing of our Panama representation.

In order to increase our knowledge and develop connections for our customers, we plan to explore the opening of a representation in Johannesburg, South Africa and will undertake the necessary due diligence to examine this option further. We are also conducting due diligence and developing options for opening a subsidiary in India, which is discussed further in the India section. We will report back in the future on the progress of these potential representations.

Strengthening SMEs

According to Industry Canada, SMEs account for approximately 40% of Canada's GDP and are a significant contributor of jobs. They represent about 42% of the total value of Canadian exports. At the same time, however, they have been stressed by a post credit crisis "new normal" characterized by a slow U.S. recovery and a persistently high Canadian dollar. Furthermore, certain gaps exist in the private sector's capacity and appetite to service this segment.

The evolution of our role in this space reflects a growing understanding of the needs of this segment and the challenges they face, not only for the provision of financing and insurance, but for market intelligence and identification of trade opportunities. We will build on our existing range of solutions available to SMEs through two types of service: *Universal* access to simplified, technology-enabled products, and *Targeted* services aimed at higher potential companies that can benefit from more direct EDC assistance. This approach provides the flexibility to balance cost efficiency with value added trade creating initiatives which can benefit growth oriented companies.

In 2014, the main focus for Universal small business services will be the introduction of a new single buyer insurance product available online through a complete end to end process. This product is focused on the needs of SME exporters requiring a simple, fast, and easy solution to protect them against buyer default. In addition, this is expected to result in substantial cost savings as its delivery is designed to be primarily online with offline support when necessary.

In the Targeted Services segment, we will devote our efforts to a number of new initiatives. One such initiative is our small business growth financing program in order to develop stretch guidelines to assist small businesses to get the credit they need to grow to the next stage. This initiative is the result of feedback from our small business customers who noted that financing of early stage growth continues to be a challenge as there is limited private sector capacity. Of note, our two initiatives, a new single buyer insurance product and our small business growth financing program, are targeted primarily to small business exporters, which we define as businesses with sales of less than \$10 million.

We are also making changes to our Guarantee Program targeted at better serving our SME customers and ensuring a level playing field with foreign competitors. The Operations section of the Plan provides further information on these changes.

TRADE CREATION INITIATIVES

Previous planning cycles identified India, clean technologies and aerospace as priority initiatives for EDC. We continue to move forward in these areas and this section provides an update on the progress.

India

As noted in the Planning Environment, the scope of opportunities for Canadian companies to participate in international infrastructure projects in India is enormous. Over a 10 year horizon, Indian investment in infrastructure is expected to exceed USD\$1.9 trillion, with as much as 70% (\$1.33 trillion) of this figure expected to be financed in local currency. In 2012, we supported \$2.1 billion of business in India.

In order to assist exporters to take advantage of these massive opportunities, two years ago we developed an India infrastructure strategy. We are now well into the process of executing this strategy, which leverages our project finance (PF) participation and direct project equity to pull Canadian exporters and investors into the burgeoning market. This strategy should serve as a catalyst for greater Canadian participation in the Indian infrastructure sector.

Clean Technology

Clean Technology (cleantech) is a \$3 to \$4 trillion global market focused on creating technologies that reduce negative environmental impacts and allow for a more efficient use of the earth's resources. Higher global demand for natural resources and the adoption of government regulations in many countries that encourage or mandate the use of green technology has made cleantech one of the world's fastest growing industries. Canada is home to over 700 cleantech companies that employ about 44,000 Canadians.

Two years have passed since we started our cleantech initiative and much has been accomplished to date. We've built strong relationships with a portfolio of leading Canadian cleantech companies and developed risk-stretch guidelines for EDC products. We signed a Memorandum of Understanding with Sustainable Development Technology Canada (SDTC) and our two institutions have collaborated intensively in a number of areas, including information sharing, due diligence, and international business development.

Moving forward we will focus on assisting early stage cleantech companies to move past the development stage to a viable commercial state where they can penetrate key global markets. This will require review of our approach in product areas such as project finance, corporate finance, bonding and equity. We plan to focus on a subset of successful companies and work closely with these firms over the next five years to play a role in their growth. In order to do so, we will have to balance our standard risk approach with the desire to fully support this strategically important sector, which can include higher risk companies. Moving forward, as this initiative becomes absorbed into our core mandate, we will continue to expand our cleantech customer base.

Aerospace

The aerospace sector in Canada is critical to the economy. 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.

In the past two Corporate Plans, we noted that we are preparing to provide buyer financing for the early years of the CSeries, a pivotal, industry-shaping technology for the Canadian aerospace sector.

As market readiness of the CSeries aircraft approaches, we have become increasingly engaged with the CSeries' buyers. At present we are active in undertaking due diligence and setting up financing commitments.

Our participation requires us to take on higher levels of risk in the early years of the CSeries program. To manage this exposure, we have risk sharing agreements in place with partners such as Investissement Quebec and the UK's ECA, UK Export Finance. As the program progresses, we will work to bring in additional capacity from the private sector.

An important area of focus over the next five years will be on the Canadian companies across Canada that are supplying goods, services, and know-how to the CSeries, as well as other next-generation aircraft platforms. Working alongside BDC and banks, we plan to target these suppliers – comprised mainly of SMEs – and make sure that they have access to the working capital and risk mitigation tools they need to be successful.

POSITIONING FOR THE FUTURE

The items below are areas where we see potential growth for Canadian exporters over the next five years and we plan to position ourselves to help Canadians seize these opportunities when they arise. Healthcare and Africa are new areas of focus where we are preparing for growth, while natural resources and oceans are areas mentioned in last year's corporate plan that we continue to develop in preparation for supporting Canadian businesses in these sectors.

United States

We also plan to conduct further research to understand the broader trends taking place in re-shoring in the U.S. In the meantime, we are ready to support Canadian businesses, particularly SMEs, to seize opportunities in the U.S. market as it recovers. We continue look for ways to support our customers wherever possible in the U.S., which is reflected in the increase in our U.S. business in 2013.

Healthcare

Global demand for healthcare is on the rise, with the sector growing at an annual rate of approximately 7%. With a medical system that is designed to deliver a world class level of healthcare combined with renowned research institutions, Canadian companies have the potential to capitalize on this increased global demand. Based on work we have undertaken to evaluate the Canadian healthcare sector, we have developed industry connections and knowledge that position us to assist Canadian companies to take advantage of this export opportunity.

Although we have provided some support to date, there is an opportunity for us to increase our penetration of this sector by providing Canadian healthcare companies access to global supply chains as well as identifying financing and insurance solutions facilitating their expansion outside of Canada. Based on our research and industry engagement, we plan to focus our efforts over the planning period on medical device technology, services and electronic/mobile health, while also monitoring opportunities in the pharmaceutical and health infrastructure subsectors.

Africa

For the past decade, and despite the weaker global economic environment, Africa has witnessed sustained economic growth and development. Africa's collective GDP for 2011 was USD \$1.9 trillion, roughly on par with India. Composed of 54 countries with divergent growth paths, language, culture, opportunities and competitive landscapes, Africa presents many challenges and opportunities for Canadian exporters and investors in the near to mid-term.

Canada has a solid reputation in Africa, emphasized by linguistic and educational ties. Africa's sector mix aligns well with Canada's expertise, leaving Canadian exporters and investors well placed to participate in opportunities. Unfortunately, until recently, risks were simply too great for most Canadian companies to bear, and they have foregone many of the opportunities offered by the continent. However, the situation has improved in several African countries and risks are becoming more manageable for Canadian companies. To be ready for our customers, we plan to support the sectors where there is clear demand and where Canada has a competitive advantage. These sectors include extractive, infrastructure, ICT, transportation, and agriculture. While we expand our work in Africa, we will be mindful of the potentially challenging corporate social responsibility environment and the potential for increased credit risk in some African markets.

Natural Resources

Global demand for Canada's natural resources is rising as growing emerging economies seek new sources of supply. Globally, Canada is the third-largest producer-exporter of natural gas and holds the second-largest oil reserves when bitumen is included. Canada is also a leading producer of nickel, gold, diamonds, zinc and lead.

Natural Resources Canada cites plans for 600 major resource projects worth \$650 billion over the next 10 years. The upcoming projects will present an opportunity for Canadian companies to reach new international markets. Moving forward, our role will be to facilitate the integration of SMEs into the large project supply chains related to these projects and their sponsors by providing financial solutions and to make connections to grow these companies into international players. We also have a potential role to play in supporting the necessary associated infrastructure to facilitate natural resources exports, including rail, ports, and pipelines.

Oceans

The 2013-2017 Corporate Plan highlighted the oceans industry cluster as an area of growing economic opportunity for Canadian companies. One year later, we are focusing our efforts on three clusters within the oceans sector: shipbuilding, offshore oil and gas, and ocean technology. The National Shipbuilding Procurement Strategy presents an opportunity over the next 18-24 months for us to assist Canadian SMEs to access the international supply chains supporting these procurements and develop a relationship with Canadian shipyards competing on a global scale. In the offshore oil and gas space, we can offer solutions to SMEs to ensure a level playing field. On the ocean technology front, Canada is well positioned as a leader in the field, with an estimated 700 companies active in this sub-sector. Going forward, we will identify the institutes and research centres that are seeking the best innovation in ocean technology, as they are key opportunities for Canadian SMEs.

We have a role to play in intermediating the supply and demand across all three categories of ocean-related activities; from financing large projects in offshore oil and gas, to helping small business ocean technology companies connect with international supply chains.

THE OPERATIONS DIMENSION

We are committed to delivering the highest value to Canadian businesses by combining quality financial services with unique market expertise in the most efficient and customer oriented way. This includes the integration of Lean principles into our work, and investments to make us more flexible and efficient.

When pursuing business opportunities in foreign markets, Canadian companies encounter diverse and often complex financial issues and risks. The value we bring to our customers is the ability to anticipate, identify and assess those issues. This expert advice draws on our significant on the ground experience and market knowledge. We can then consider how the specific needs of our clients can be addressed, and recommend the most effective solutions.

OVERVIEW OF EDC'S FINANCING AND INSURANCE SOLUTIONS

EDC's financing and insurance solutions are provided on commercial terms and intended to add capacity to the market where and when it is needed. Our four current product groupings are listed below. A detailed summary of our full range of products is available in Appendix 1.

- **Financing:** We help Canadian companies in accessing more working capital, allowing them to successfully compete in the global marketplace and to offer buyer financing when competing for export contracts. We do this through our Export Guarantee Program, commercial guarantees to banks, direct lending solutions, project finance and our participation in corporate facilities. We also provide growth capital through private equity investments to enhance the growth of SMEs, focused on exporting, international expansion and/or developing international affiliations.
- **Credit Insurance:** Our Accounts Receivable Insurance (ARI) helps Canadian exporters 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:** Our bonding solutions are used by companies to access capacity with sureties and banks that issue guarantees to buyers, regulatory authorities and suppliers. We also offer 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.

CHANGES IN OUR OFFERINGS

Guarantee Program

In 2013 we launched an initiative to review our portfolio of buyer financing guarantee solutions to better support SME export sales. The review found that our current program is fragmented and difficult for partners to implement. The initiative leverages the capabilities of bank partners to deliver financing solutions in support of Canadian exports, improve our responsiveness to SME export financing opportunities and ensure Canadian exporters can more effectively compete in key export markets. To achieve this, we will harmonize our current portfolio of guarantee programs, broaden our partner base, bring clarity to the guarantee program framework and ensure a level playing field for Canadian exporters.

Investments Program

Our Investments program has provided capital support to companies in Canada since its inception. The program has four key objectives: to contribute to the growth and sustainability of SMEs by investing in Canada's next-generation of exporters to help them transition beyond Canada and the U.S. to emerging markets; to build strategic relationships with international fund investments; to generate benefits for Canada; and finally, to maintain the program's financial sustainability. This strategy is intended to align with the Government of Canada's goals and in coordination with Canada's public sector agencies and BDC.

Our approach is to invest directly in companies or indirectly through fund investments in Canadian venture capital and private equity limited partnership funds. We focus on innovation-rich sectors where Canada has competitive advantages such as agriculture, clean technologies, energy and mining, marine and information and communications technology.

We also invest to build strategic relationships with international private equity and infrastructure fund managers, primarily in emerging markets. This gives Canadian SMEs that want to expand to international markets unique access to fund managers, as well as their networks and portfolio companies.

During the planning period we plan to grow the size of the program and we will expand our domestic investments portfolio in early stage SMEs to enhance their chance of success in this challenging space.

Credit Insurance Transformation

Credit Insurance is a simple and efficient tool to help Canadian exporters grow, and is as relevant in times of risk and uncertainty as in periods of growth. As Canadian companies increase exports, particularly to developing markets, a healthy credit insurance market is crucial for Canada to increase its global trade position.

Our vision, empowered by a new enabling technology platform, will be to act in an enhanced partnership with private sector insurers to promote the development of the credit insurance market, consequently facilitating increased Canadian trade. Our particular focus is on the SME segment, where we are developing a new range of products to satisfy their needs.

With this in mind, we have undertaken a Credit Insurance Transformation project, which will significantly change the way we do business with SMEs in the insurance space; helping us serve more small business customers and also enhancing partnerships with the private sector. This project will involve a major investment in new technology which will make EDC easier and faster to deal with and allow us to deliver new and enhanced products and improve our customers' experience.

We will implement the project over the next five years, allowing us to evaluate the changes being made in the market and to ensure we continue to meet the requirements of our mandate and the needs of Canadian exporters.

In order to reach a future state where we can assist in the expansion of the market for credit insurance, our current focus is to modernize our IT systems by introducing simplified, automated and scalable processes and product offerings, and provide greater efficiency.

Subsequently, we will focus our efforts on two key initiatives. First, in partnership with private market insurers, we intend to expand the industry's reach to existing and potential exporters who do not use credit insurance. Second, we will evolve our credit insurance solutions, including those where we work with partners, thus expanding our customers' choice.

HOW WE DELIVER

As noted in the Partnership Preferred Philosophy section, we work closely with our partners in the private sector to combine our expertise and risk capacity to support Canadian businesses. We also work closely with a number of other partners, outlined in the sections below.

Collaboration with Department of Foreign Affairs, Trade and Development

EDC and the Trade Commissioner Service (TCS) both play a vital and complementary role in helping Canadian companies be successful in foreign markets. The TCS has a very broad footprint, and a mandate to facilitate trade for Canadian companies, whereas EDC has a specialized mandate to provide financial services in international markets where our financial know-how offers the best potential to generate opportunities for Canada. Canadian companies, especially SMEs, get the greatest value when the services of EDC and the TCS are well coordinated.

In 2013, we signed a Memorandum of Understanding (MOU) with DFATD aimed at improving collaboration to help both organizations deliver better services to Canadian businesses. The MOU laid the groundwork for more formal sharing of plans to ensure no duplication of services and set out principles in three broad areas: communication and information sharing; more effective referrals of businesses to one another; and, improved coordination of activities, ranging from trade creation and promotion tools and events, to training programs. In the MOU we also committed to coordinate on the planning and implementation of activities that advance our shared interest in North America via the North American Platform Program and are moving forward with this collaboration.

Joint planning with the TCS around trade creation is underway to optimize service delivery and minimize duplication. As a result of the MOU we have initiated a pilot project with the TCS involving pull transactions. For these transactions, we are undertaking joint planning and matchmaking events, sharing local contacts and in-market knowledge to help Canadian companies integrate into global supply chains. Over the planning period, we will strengthen this relationship for the benefit of Canadian companies. We also plan to work with the TCS to support inbound foreign investment that results in exports, and collaborate on the implementation of the Global Commerce Strategy.

BDC

Partnerships are also an important part of our service to small business and we have been working diligently to further our relationship with BDC. Collaboration between the two organizations has also moved beyond referrals to joint events, learning sessions, and regular senior level discussions. We are also working jointly on aerospace and ICT outreach programs with mutual clients and partners. Moving forward, we will continue to fine tune the way we work together and look for new areas of collaboration with a goal of continuing to improve our overall service to Canadian companies.

Working with IFIs and Multilateral Banks

In 2012 we signed a Memorandum of Understanding with the International Finance Corporation (IFC), a member of the World Bank, to leverage each other's capabilities in emerging market projects and transactions, and enhanced partnering in the infrastructure, cleantech and agribusiness sectors. We also have an MOU with the African Trade Insurance Agency (ATI) to facilitate more trade and investment between Africa and Canada. In 2014 and beyond, EDC will do more co-financings alongside these institutions to grow Canadian involvement in international projects and introduce Canadian companies to these strategic partners that can assist them in their expansion and investment into emerging markets.

THE RISK MANAGEMENT DIMENSION

Our business activities expose us to a wide variety of risks, and an unpredictable planning environment requires us to exercise prudent risk management in order to remain flexible during volatile times. As such, we will willingly “stretch” or take risks that are commensurate with expected benefits, and manage these risks by ensuring that our business activities and transactions provide an appropriate balance of return for the risks assumed.

ENTERPRISE RISK MANAGEMENT

To that effect, we have evolved our risk management practices with a view to increasing the visibility and ownership of risk management throughout the organization, and to ensure risk considerations are fully integrated across all levels of planning, operations and processes.

Our Enterprise Risk Management (ERM) Framework identifies and defines a broad range of risks to which our businesses and operations could be exposed and forms the foundation for appropriate oversight and governance; and includes strategic risk, financial risk and operation risk modules. The framework outlines our methods and processes to manage risk, while seizing on opportunities to achieve our business objectives.

In 2013 we implemented a new Credit Risk Rating Engine (CRRE), which updated and standardized our risk rating methodologies to align with best industry practices and regulatory directives, such as Basel III, and to improve the way we make credit acceptance decisions for our customers.

Our enterprise 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 business units, the Executive Team, who represent each significant business unit, the President, and the Board of Directors, which provides corporate oversight. Additionally, our Internal Audit group evaluates our internal controls, and governance processes.

Throughout 2013, we developed a roadmap on how to fill defined gaps in our current risk management system. In 2014 we will finalize the design of our ERM Framework, including a Risk Appetite Statement, and conduct an independent review of our Credit and Market Risk Policies.

THE FINANCIAL SUSTAINABILITY DIMENSION

Our commitment to financial sustainability means we must be able to remain solvent under stressed scenarios, keep a well-capitalized balance sheet and adequate liquidity to meet our financial commitments and have sufficient reserves against future losses. We must also adhere to annual expense and capital budgets, generate an adequate productivity ratio and deliver timely, accurate and informative financial information. All initiatives within the Business Strategy must therefore be evaluated to ensure they reflect our commitment to fiscal prudence and our long-term viability. Over the planning period, we also plan to cooperate with OSFI’s review of financial crown corporations.

The Financial Sustainability Dimension is discussed in Chapter 3. This chapter identifies areas where we continue to exercise prudence in managing our administrative and operating expenses and demonstrates how the investments we are making will enable us to serve Canadian companies over the planning period. The Financial Plan also provides details on our Capital Adequacy Policy and key business assumptions which underlay our projected financial performance. Chapter 3 includes Statements of Comprehensive Income, Statements of Financial Position, Statement of Changes in Equity, Statements of Cash Flows and planned capital expenditures for 2014-2018.

2.6 MEASURING SUCCESS: SCORECARD

Our 2014 scorecard drives our behaviours and contributes to the achievement of the strategic objectives laid out in the plan.

As the trade environment and priorities evolve, so do the benchmarks against which we measure our success. For example, in 2013 our scorecard introduced a new measure to reflect our focus on better serving small business exporters and redefined how we measure business in emerging markets. In 2014, our scorecard does not introduce any changes.

TOTAL BUSINESS FACILITATED

This measure provides an order of magnitude of the business Canadian companies carry out with the help of our solutions. We expect our business facilitated in 2013 to remain at 2012 levels. While a strengthening U.S. economy has led to more business facilitation in the U.S., this has been off-set by exporters experiencing softness in other core markets. For 2014 we anticipate growth in the range of 0-3% predicated on continued growth in the U.S. economy and strong growth forecasts for sectors including energy, forestry, industrial machinery and equipment, and aircraft and parts. The counterbalance to this growth will be continued weakness in some core markets for exporters and softness in commodity prices.

BUSINESS IN EMERGING MARKETS (BEM)

To provide a more complete picture of the value we deliver to Canadian companies in emerging markets, in 2013 we introduced revenue as the base for measuring our activity in these markets.

Revenue is a comparable measure of value across our insurance and financing programs, therefore providing a more balanced view of our business. Revenue derived from all programs count towards BEM and is defined as the accounting revenue reported on the income statement earned during the calendar year through premiums, fees and interest on transactions in emerging markets.

At the end of 2013 we expect to see growth in BEM of 5%, which has been driven by our financing program. In 2014 we anticipate growth in the 0-3% range. Our revenue in emerging markets is generated primarily by collecting interest on our loans.

SMALL BUSINESS TRANSACTIONS: HELPING SMALL BUSINESS EXPORTERS COMPETE INTERNATIONALLY

In 2012, we began exploring ways to optimize our impact on the small business segment and broaden our offering in a cost efficient manner, notably by leveraging technology to provide more customized solutions to high-potential small exporters. To ensure we focus on this segment of exporters, in 2013 we introduced a “Small Business Transactions” measure, which encompasses all transactions related to small business exporters over the course of the year.

We expect a decline of approximately 2% in 2013 due to a return of the domestic banking environment where perceived risks are lower compared to the recession period. In 2014 we are anticipating growth in the 0-3% range based on the continued strength in private sector capacity and continued decline in the number of new exporter entrants as forecasted by Statistics Canada. These declines will be offset in part by our focus on SME exporters, including targeted marketing initiatives and new product offerings noted in the Plan.

CANADIAN DIRECT INVESTMENT ABROAD (CDIA) TRANSACTIONS

As the global economy continues to integrate, CDIA is becoming increasingly critical to the health of the Canadian economy, and supporting CDIA transactions has become an integral part of our core business.

In 2013 we are forecasting a decline of approximately 1%. Some Canadian exporters and investors are waiting for economic fundamentals to improve and have delayed their investment decisions. In 2014 we are forecasting growth of 0-3% as we expect to maintain existing customers and see some increase in demand for our products. We will continue our partnership strategies with banks and brokers, which we expect to result in new CDIA customers.

PARTNERSHIP TRANSACTIONS

Our ability to serve Canadian companies is enhanced by partnering with both public and private sector players.

By the end of 2013 we expect that partnership transactions will have increased by 2-3%. This is primarily as a result of the demand for domestic reinsurance policies. In 2014 we forecast growth in the 0-3% range. Growth may be on the lower end of this range as a result of increased liquidity in the market.

NET PROMOTER SCORE

The Net Promoter Score (NPS) is the measure against which we evaluate our customer satisfaction and loyalty. NPS measures our reputation and the likelihood that our customers would recommend EDC to business colleagues.

We expect that our 2013 NPS score will fall below last year’s result. As the effects of the crisis dissipate, EDC’s NPS score is returning to levels witnessed in the periods 2006-2009.

For 2014 we anticipate the range to fall between 67.0 - 73.0. We will direct our focus to creating a better customer experience, such as improving the ease of business for our customers.

PRODUCTIVITY RATIO

Our Productivity Ratio captures, in aggregate form, how well we use our resources. It is the ratio of administrative expenses to net revenue, excluding debt relief. We try to ensure our productivity ratio remains between 24 and 26 per cent.

| Performance Measures | 2012 Actual (Baseline)* | 2013 Plan | 2013 Forecast | 2014 Plan |
|------------------------------------|-------------------------|----------------------|------------------|---------------|
| Net Promoter Score | 72.0 | 70.0 – 76.0 maintain | 69.0 | 67.0 – 73.0 |
| Total Business Facilitated (\$B) | 87,5 | 3 – 6% decline | 87,5 | 0 – 3% growth |
| Business in Emerging Markets (\$M) | 489 | 2% decline | 513 | 0 – 3% growth |
| CDIA Transactions | 433 | 2% decline | 429 | 0 – 3% growth |
| Partnership Transactions | 4,195 | 3 – 6% decline | 4,299 3,717** | 0 – 3% growth |
| Small Business Transactions*** | 2,588 | maintain | 2,535 | 0 – 3% growth |
| Productivity Ratio | 21.7 | 24 – 26 | 23.7 | 24 – 26 |

* Baseline represents 2012 actual results using revised 2013 incentive measures definitions.

** This number has been restated to reflect the changes to EDC's domestic regulations in 2014. The growth range in 2014 is based on the 2013 restated number.

*** We define small business as companies with sales of less than \$10 million.

CHAPTER 3: EDC'S FINANCIAL PLAN

INTRODUCTION

Key items to highlight in the Financial Plan are as follows:

- Our focus on financial sustainability will continue to be a priority. This requires 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.
- Net income is projected to be \$858 million in 2013 and is expected to be consistent with the \$600 to \$800 million targeted range from 2014 to 2018.
- We continue to target a productivity ratio of 24-26%, ensuring that new initiatives are funded through productivity gains.
- This Financial Plan does not include any new strategic initiatives other than those previously included in our prior year Plan.
- A new approach to our dividend policy was adopted resulting in the payment of a \$1.44 billion dividend in 2013 and a projected dividend payment of \$994 million in 2014.

In the Financial Plan, we will first highlight the key business assumptions which were used to derive our 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 business facilitated, risk profile of business facilitated, foreign exchange and interest rates, all of which have an impact on our business activity and financial performance, drive the financial plan. Using these assumptions, which align with our business strategy and economic outlook, projected financial statements are developed for the planning period, including a forecast to the end of the current fiscal year. Any changes to our business strategy or to the underlying assumptions may materially affect the projections over the planning period.

BUSINESS FACILITATED

The level of business facilitated for each program is presented in the table below. This is a key assumption in deriving revenue and funding costs included in the projected financial results.

Table 1: Projected Level of Business Facilitated (2012-2018)

| <i>(in millions of Canadian dollars)</i> | 2012 Actual | 2013 Plan | 2013 Fcst | 2014 Plan | 2015 Proj | 2016 Proj | 2017 Proj | 2018 Proj |
|------------------------------------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Business Facilitated | | | | | | | | |
| Financing | 14,618 | 13,050 | 15,450 | 15,600 | 18,175 | 19,975 | 20,800 | 21,250 |
| Insurance | 72,831 | 77,500 | 72,100 | 72,300 | 74,800 | 77,300 | 80,000 | 82,900 |
| | 87,449 | 90,550 | 87,550 | 87,900 | 92,975 | 97,275 | 100,800 | 104,150 |

2013 FORECAST

The 2013 financing business facilitated has increased \$2.3 billion over last year's Corporate Plan mainly due to growth in the extractive and transportation sectors. The increase in the extractive sector is, in part, due to a shift in timing, as a few significant deals were delayed in 2012 and signed in the first half of 2013. Market conditions are also contributing to the increased financing demand in 2013. The current low interest rate environment is making it attractive for companies to borrow for expanding operations, purchasing equipment and inventory, increasing working capital as well as refinancing.

Forecast business facilitated for our insurance offerings has decreased \$5.4 billion from the 2013 Plan. Our contract insurance and bonding program declined \$2.1 billion and our credit insurance program has declined \$1.4 billion mainly due to reduced volumes with a few strategic customers in each program. Our financial institutions program declined by \$1.8 billion as a result of lower market prices and increased liquidity.

2014 PLAN

We are projecting our business facilitated to remain flat in 2014 for our financing and insurance programs.

2015-2018 PROJECTIONS

Our financing and insurance programs are projected to grow at 3.5% per year from 2015 to 2018 with the exception of growth in our three trade creating initiatives: Aerospace, Clean Technology and India infrastructure. As indicated in Chapter 1, Canadian manufacturing exports are expected to stabilize and start to recover.

RISK PROFILE OF BUSINESS FACILITATED

Generally speaking, we assume 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 exposing us to large potential losses.

The risk profile of the financing portfolio is one of the key drivers of both the provision for credit losses and capital demand for credit risk.

Table 2 provides the projected risk profile for new loan signings for the remainder of 2013 and throughout the planning period.

Table 2: Risk Categories for New Loan Signings (2012-2018)

| <i>(Based on \$ value of signings)</i> | Inv. Grade | Non-Inv. Grade |
|----------------------------------------|------------|----------------|
| Actual 2012 | 69% | 31% |
| 2013 Corporate Plan | 62% | 38% |
| 2013 Forecast | 62% | 38% |
| 2014 Corporate Plan | 57% | 43% |
| 2015 Projected | 55% | 45% |
| 2016 Projected | 52% | 48% |
| 2017 Projected | 52% | 48% |
| 2018 Projected | 52% | 48% |

We are forecasting a level of investment grade signings for 2013 consistent with the 2013 Corporate Plan. The forecast is driven by several large investment grade deals in the extractive sector. We continue to take on risk in the non-investment grade space as we facilitate a large number of higher risk, lower dollar value loan transactions. Based on number of transactions, more than 85% of new signings in 2013 are non-investment grade loans.

FOREIGN EXCHANGE

The Financial Plan uses a year-to-date average as the U.S. dollar foreign exchange rate assumption for the remainder of 2013 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 2013 through June 2013, is U.S. \$0.98.

INTEREST RATES AND YIELDS

This forecast assumes that as America's economic recovery takes hold, the U.S. Federal Reserve will gradually reduce the extraordinary monetary stimulus (quantitative easing) currently in place and interest rates will begin to increase in 2015.

3.2 ADMINISTRATIVE EXPENSES AND PRODUCTIVITY RATIO

We continue to exercise prudence in managing operational costs which are depicted through our administrative expense projections for 2014 and beyond. Items of significance are as follows:

1. We are targeting administrative expenses of \$334 million for 2014 versus a current forecast for 2013 of \$312 million. 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 critical for the ongoing success of the organization and we anticipate normal salary increases as we expect to maintain our existing staff complement. In addition, we are increasing our investment in advertising in an effort to raise awareness and understanding of EDC and its services among Canadian exporters and trade partners especially among small businesses.
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. Included in the administrative expense projections are substantial pension cost reductions over the planning period as a result of the projected increase in the discount rate which aligns with our outlook on interest rates.

PRODUCTIVITY RATIO

In order to ensure financial sustainability, we are continuing our commitment to target a Productivity Ratio (PR) of 24-26%. This is a challenging undertaking, which will be especially difficult given inflationary pressures and our 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 which are forecast to be constant throughout the planning period. 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 revenue.

It is also important to note that our pension costs can fluctuate based on changes in assumptions used to value our defined benefit pension obligation. For purposes of PR calculations, we exclude the impact of the additional pension expense not anticipated at the time of preparing the prior year's Plan with the intent to absorb the changes in the following year. As such, \$7 million of unforeseen decreases in pension costs have been excluded from the 2013 PR.

We are currently projecting a PR of 24.7% in 2014. Throughout the remainder of the planning period we expect our PR to remain consistent with the targeted range of 24-26%.

3.3 PLANNED CAPITAL EXPENDITURES

Table 3: Projected Capital Expenditures (2012-2018)

| | 2012 | 2013 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <i>(in millions of Canadian dollars)</i> | Actual | Plan | Fcst | Plan | Proj | Proj | Proj | Proj |
| Head Office and Facilities | 2.6 | 4.3 | 1.3 | 4.4 | 1.7 | 3.0 | 3.1 | 2.8 |
| Information Technology | 15.2 | 22.5 | 25.5 | 31.2 | 25.7 | 15.1 | 13.2 | 14.5 |
| Total Capital Expenditures | 17.8 | 26.8 | 26.8 | 35.6 | 27.4 | 18.1 | 16.3 | 17.3 |

Capital expenditures for 2014 and 2015 are projected to be higher than the 2013 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 next few years, as we redesign and rebuild our business platforms while continuing to maintain existing systems.

3.4 FINANCIAL RESULTS

STATEMENT OF COMPREHENSIVE INCOME

Table 4: Projected Condensed Consolidated Statement of Comprehensive Income (2012-2018)

| <i>for the year ended December 31 (in millions of Canadian dollars)</i> | 2012 Actual ¹ | 2013 Plan | 2013 Fcst | 2014 Plan | 2015 Proj | 2016 Proj | 2017 Proj | 2018 Proj |
|-----------------------------------------------------------------------------|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Financing and investment revenue | | | | | | | | |
| Loan | 1,116 | 1,108 | 1,130 | 1,121 | 1,348 | 1,840 | 2,349 | 2,749 |
| Finance lease | 6 | 5 | 6 | 5 | 4 | 2 | – | – |
| Operating lease | 17 | 60 | 55 | 69 | 67 | 61 | 58 | 58 |
| Investments | 5 | 4 | 6 | 4 | 4 | 4 | 4 | 4 |
| Marketable securities | 36 | 46 | 32 | 29 | 56 | 97 | 117 | 124 |
| Total financing and investment revenue | 1,180 | 1,223 | 1,229 | 1,228 | 1,479 | 2,004 | 2,528 | 2,935 |
| Interest expense | 108 | 145 | 42 | 68 | 340 | 939 | 1,505 | 1,853 |
| Leasing and financing related expenses | 33 | 46 | 50 | 45 | 42 | 44 | 38 | 34 |
| Net Financing and Investment Income | 1,039 | 1,032 | 1,137 | 1,115 | 1,097 | 1,021 | 985 | 1,048 |
| Loan Guarantee Fees | 38 | 32 | 39 | 40 | 40 | 44 | 46 | 49 |
| Insurance premiums and guarantee fees | 204 | 227 | 206 | 201 | 204 | 209 | 214 | 221 |
| Reinsurance assumed | 12 | 6 | 10 | 8 | 8 | 8 | 9 | 9 |
| Reinsurance ceded | (20) | (18) | (24) | (21) | (21) | (21) | (22) | (22) |
| Net Insurance Premiums and Guarantee Fees | 196 | 215 | 192 | 188 | 191 | 196 | 201 | 208 |
| Other Income (Expenses) | (16) | (7) | (79) | 9 | 9 | 15 | 20 | 30 |
| Administrative Expenses | 308 | 330 | 312 | 334 | 333 | 332 | 325 | 333 |
| Income before Provision and Claims-Related Expenses | 949 | 942 | 977 | 1,018 | 1,004 | 944 | 927 | 1,002 |
| Provision for (Reversal of) Credit Losses | (340) | 47 | (8) | 177 | 223 | 210 | 208 | 337 |
| Claims-Related Expenses (Recovery) | (38) | 60 | 127 | 60 | 87 | 87 | 87 | 90 |
| Net Income | 1,327 | 835 | 858 | 781 | 694 | 647 | 632 | 575 |
| Other Comprehensive Income | 51 | – | 48 | 38 | 77 | 77 | 4 | 4 |
| Comprehensive Income | 1,378 | 835 | 906 | 819 | 771 | 724 | 636 | 579 |
| Productivity Ratio | 21.7% | 25.9% | 23.7% | 24.7% | 24.9% | 26.0% | 26.0% | 24.9% |

¹ 2012 actual results have been restated as a result of the implementation of IAS 19. Refer to page 40 for more details.

2013 FORECAST VERSUS 2013 CORPORATE PLAN

We are forecasting net income of \$858 million for 2013, an increase of \$23 million over the 2013 Corporate Plan. Items of note regarding this forecast are as follows:

- We are projecting a reversal of provision for credit losses of \$8 million compared to a provision expense of \$47 million in the Plan. The change is primarily due to the following:
 - An expected \$39 million release of provision for credit migration mainly due to the ongoing implementation of our new internal credit risk rating tool compared to an \$83 million provision charge projected in the Plan. At the time the plan was prepared it was not possible to estimate the impact of the implementation of this tool. For the first six months of 2013 the impact was a \$60 million release.
 - An increase in the release of provision of \$79 million relating to net portfolio growth as the impact of the provision release from projected loan repayments exceeds the additional provisions required as a result of forecast disbursements and new commitments. The forecast disbursements and new commitments are of higher credit quality therefore requiring lower provisions.
 - A decline in the collateral values used in the calculation of the allowance on our secured aerospace portfolio has resulted in a \$130 million increase in provision for credit losses.
- Net financing and investment income has increased by \$105 million mainly due to a reduction in interest expense as a result of both lower interest rates than projected and updates to assumptions related to our debt portfolio.
- Claims-related expenses have increased \$67 million mainly the result of:
 - an actuarial increase in the net allowance for claims on insurance due to updated assumptions used in the calculation of the allowance and;
 - a reduction in our recoverable insurance claims due to updates in assumptions used to estimate the recoverable amount.
- Other expenses are forecast to be \$79 million compared to the \$7 million in the 2013 Corporate Plan. The variance is largely due to the volatility associated with our financial instruments carried at fair value in our 2013 year to date results. 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.
- Other comprehensive income arises due to the implementation of the amended *International Accounting Standard (IAS) 19 – Employee Benefits*. The decrease over the Corporate Plan period is due in large part to the increase in the discount rate used to determine our pension expense as well as the decrease in service cost resulting from the expected decline in active members in the defined benefit plan.

2014 CORPORATE PLAN VERSUS 2013 FORECAST

The planned net income for 2014 is \$781 million, which is a decrease of \$77 million from 2013. This is primarily due to the release of provision in 2013 as previously discussed. This change is tempered by a projected decrease in claims-related expenses since we are not anticipating updated assumptions to have a significant impact in 2014.

2015 TO 2018

As noted in the global outlook section of Chapter 1, a recovery-style of growth is helping to get the world economy going again. As the economy improves, we are projecting an increase in interest rates starting in 2015; thereby significantly increasing both projected loan revenue and interest expense.

Included in the administrative expense projections are substantial pension cost reductions over the planning period as a result of a projected increase in the discount rate used to value our pension obligation from 4.8% in 2013 to 6.0% by 2018. If this increase in rates does not materialize, administrative expenses in each year would be higher than currently projected in the plan.

Additional items of interest to note in the 2015-2018 period include:

- The projected net income for 2015 through 2018 is lower than 2014 mainly due to an increase in the provision expense as projected disbursements associated with the Aerospace initiative increase significantly
- In 2016, the increase in interest expense is \$107 million higher than the increase in loan revenue mainly as a result of our debt resetting to the higher interest rate at a quicker pace than our loan book.
- In 2017 and 2018, we are projecting an interest expense on our capital swaps. These are currency swaps that are set up with the objective to offset U.S. dollar assets and liabilities with a U.S. dollar payable component and a Canadian dollar receivable component. The Plan projects that a negative spread will exist between the CDOR and U.S. Libor interest rates starting in 2017 and as a result we will pay interest of \$1 million in 2017 and \$9 million in 2018. In comparison, we are projecting interest revenue of \$62 million in 2015 and \$41 million in 2016 on our capital swaps.

STATEMENT OF FINANCIAL POSITION

Table 5: Projected Condensed Consolidated Statement of Financial Position (2012-2018)

| <i>as at December 31</i> <i>(in millions of Canadian dollars)</i> | 2012 Actual ¹ | 2013 Plan | 2013 Fcst | 2014 Plan | 2015 Proj | 2016 Proj | 2017 Proj | 2018 Proj |
|----------------------------------------------------------------------|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Assets | | | | | | | | |
| Cash | 80 | 154 | 133 | 133 | 133 | 133 | 133 | 133 |
| Marketable securities: | | | | | | | | |
| At fair value through profit or loss | 4,082 | 4,109 | 3,971 | 4,557 | 4,557 | 4,557 | 4,557 | 4,557 |
| At amortized cost | 74 | 76 | 78 | — | — | — | — | — |
| Derivative instruments | 1,352 | 1,497 | 714 | 714 | 714 | 714 | 714 | 714 |
| Loans receivable | 30,131 | 31,733 | 33,415 | 35,654 | 37,764 | 41,776 | 46,224 | 51,736 |
| Allowance for losses on loans | (1,182) | (1,364) | (1,163) | (1,198) | (1,292) | (1,386) | (1,465) | (1,671) |
| Investments at fair value through profit or loss | 429 | 500 | 544 | 656 | 786 | 904 | 993 | 1,041 |
| Equipment available for lease | 525 | 517 | 492 | 457 | 424 | 389 | 358 | 329 |
| Net investment in aircraft under finance leases | 80 | 70 | 71 | 59 | 46 | 16 | — | — |
| Recoverable insurance claims | 200 | 80 | 186 | 184 | 191 | 192 | 198 | 206 |
| Reinsurers' share of policy and claims liabilities | 90 | 101 | 87 | 88 | 91 | 95 | 99 | 103 |
| Other assets | 99 | 201 | 106 | 106 | 106 | 127 | 140 | 140 |
| Property, plant and equipment | 66 | 60 | 60 | 59 | 55 | 50 | 49 | 48 |
| Intangible assets | 38 | 39 | 43 | 50 | 54 | 52 | 47 | 39 |
| Building under finance lease | 169 | 162 | 159 | 152 | 145 | 138 | 131 | 124 |
| Total Assets | 36,233 | 37,935 | 38,896 | 41,671 | 43,774 | 47,757 | 52,178 | 57,499 |
| Liabilities and Equity | | | | | | | | |
| Accounts payable and other credits | 113 | 128 | 133 | 133 | 133 | 133 | 133 | 133 |
| Loans payable: | | | | | | | | |
| Designated at fair value through profit or loss | 24,862 | 25,679 | 27,599 | 31,569 | 33,132 | 37,194 | 41,997 | 47,408 |
| At amortized cost | 1,018 | 2,031 | 1,036 | 20 | 20 | — | — | — |
| Derivative instruments | 120 | 181 | 575 | 575 | 575 | 575 | 575 | 575 |
| Obligation under finance lease | 173 | 169 | 170 | 166 | 162 | 158 | 154 | 150 |
| Retirement benefit obligations | 270 | 307 | 246 | 207 | 137 | 70 | 78 | 94 |
| Allowance for losses on loan commitments | 58 | 63 | 43 | 59 | 62 | 54 | 56 | 61 |
| Policy and claims liabilities | 583 | 565 | 613 | 616 | 638 | 662 | 686 | 710 |
| Loan guarantees | 161 | 170 | 140 | 160 | 176 | 178 | 178 | 176 |
| | 27,358 | 29,293 | 30,555 | 33,505 | 35,035 | 39,024 | 43,857 | 49,307 |
| Equity | | | | | | | | |
| Share capital | 1,333 | 1,333 | 1,333 | 1,333 | 1,333 | 1,333 | 1,333 | 1,333 |
| Retained earnings | 7,542 | 7,309 | 7,008 | 6,833 | 7,406 | 7,400 | 6,988 | 6,859 |
| | 8,875 | 8,642 | 8,341 | 8,166 | 8,739 | 8,733 | 8,321 | 8,192 |
| Total Liabilities and Equity | 36,233 | 37,935 | 38,896 | 41,671 | 43,774 | 47,757 | 52,178 | 57,499 |

¹ 2012 actual results have been restated as a result of the implementation of IAS 19. Refer to page 40 for more details.

2013 FORECAST VERSUS 2013 CORPORATE PLAN

Loans receivable are forecast to be \$1.7 billion higher than projected in the Plan primarily due to higher disbursements resulting from an increase in the expected level of loan signings in 2013.

Net derivative instruments are forecast to be \$1.2 billion lower than Plan due to increases in rates used for their valuation and exchange rate fluctuations beyond levels anticipated in the Plan.

2014 CORPORATE PLAN VERSUS 2013 FORECAST

Loans receivable are projected to be \$2.2 billion higher than the 2013 forecast of \$33.4 billion as a result of net disbursements in 2014. Loans payable are growing in tandem with the projected increase in loans receivable.

STATEMENT OF CHANGES IN EQUITY

Table 6: Projected Condensed Consolidated Statement of Changes in Equity (2012-2018)

| <i>for the year ended December 31</i> <i>(in millions of Canadian dollars)</i> | 2012 Actual ¹ | 2013 Plan | 2013 Fcst | 2014 Plan | 2015 Proj | 2016 Proj | 2017 Proj | 2018 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 | 6,923 | 7,453 | 7,542 | 7,008 | 6,833 | 7,406 | 7,400 | 6,988 |
| Transitional adjustment on application of IAS 19 | (259) | (240) | — | — | — | — | — | — |
| Comprehensive income | 1,378 | 835 | 906 | 819 | 771 | 724 | 636 | 579 |
| Dividend paid | (500) | (739) | (1,440) | (994) | (198) | (730) | (1,048) | (708) |
| Balance end of year | 7,542 | 7,309 | 7,008 | 6,833 | 7,406 | 7,400 | 6,988 | 6,859 |
| Total Equity at End of Year | 8,875 | 8,642 | 8,341 | 8,166 | 8,739 | 8,733 | 8,321 | 8,192 |

¹ 2012 actual results have been restated as a result of the implementation of IAS 19. Refer to page 40 for more details.

STATEMENT OF CASH FLOWS

Table 7: Projected Condensed Consolidated Statement of Cash Flows (2012-2018)

| <i>for the year ended December 31</i> <i>(in millions of Canadian dollars)</i> | 2012 | 2013 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|------------------------------------------------------------------------------------------------|---------------------|--------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Actual ¹ | Plan | Fcst | Plan | Proj | Proj | Proj | Proj |
| Cash Flows from (used in) Operating Activities | | | | | | | | |
| Comprehensive income | 1,378 | 835 | 906 | 819 | 771 | 724 | 636 | 579 |
| Adjustments to determine net cash from (used in) operating activities | | | | | | | | |
| Provision for (reversal of) credit losses | (340) | 47 | (8) | 177 | 223 | 210 | 208 | 337 |
| Actuarial change in the net allowance for claims □ | (233) | 9 | 41 | 9 | 23 | 21 | 20 | 20 |
| Depreciation and amortization | 52 | 67 | 69 | 71 | 72 | 71 | 62 | 60 |
| Changes in operating assets and liabilities | | | | | | | | |
| Change in derivative instruments receivable | 50 | — | 283 | — | — | — | — | — |
| Change in derivative instruments payable | 144 | — | (784) | — | — | — | — | — |
| Other | (313) | (87) | (192) | (134) | (97) | (3) | 109 | 70 |
| Loan receivable disbursements | (11,887) | (12,143) | (13,087) | (13,469) | (14,497) | (16,749) | (17,360) | (18,157) |
| Loan receivable repayments | 9,232 | 11,325 | 10,364 | 11,160 | 12,314 | 12,639 | 12,779 | 12,509 |
| Net cash from (used in) operating activities | (1,917) | 53 | (2,408) | (1,367) | (1,191) | (3,087) | (3,546) | (4,582) |
| Cash Flows from (used in) Investing Activities | | | | | | | | |
| Investments disbursements | (121) | (109) | (130) | (174) | (193) | (206) | (213) | (187) |
| Investments receipts | 63 | 59 | 32 | 62 | 63 | 88 | 124 | 139 |
| Finance lease repayments | 10 | 11 | 11 | 12 | 13 | 10 | 2 | — |
| Net (purchases)/sales/maturities of marketable securities at fair value through profit or loss | (428) | (503) | 185 | (586) | — | — | — | — |
| Net cash from (used in) investing activities | (476) | (542) | 20 | (608) | (117) | (108) | (87) | (48) |
| Cash Flows from (used in) Financing Activities | | | | | | | | |
| Issue of long-term loans payable - designated at fair value through profit or loss | 8,768 | 6,476 | 8,229 | 11,309 | 6,654 | 6,166 | 11,053 | 15,640 |
| Repayment of long-term loans payable - designated at fair value through profit or loss | (5,943) | (5,787) | (5,839) | (7,204) | (5,949) | (2,188) | (7,048) | (11,187) |
| Repayment of long-term loans payable at amortized cost | (999) | — | — | (1,016) | — | (20) | — | — |
| Net change in short-term loans payable - designated at fair value through profit or loss | 951 | 539 | 863 | (120) | 801 | (33) | 676 | 885 |
| Change in derivative instruments receivable | 137 | — | 360 | — | — | — | — | — |
| Change in derivative instruments payable | (30) | — | 268 | — | — | — | — | — |
| Dividend paid | (500) | (739) | (1,440) | (994) | (198) | (730) | (1,048) | (708) |
| Net cash from (used in) financing activities | 2,384 | 489 | 2,441 | 1,975 | 1,308 | 3,195 | 3,633 | 4,630 |
| Effect of exchange rate changes on cash | (1) | — | — | — | — | — | — | — |
| Net increase (decrease) in cash | (10) | — | 53 | — | — | — | — | — |
| Cash | | | | | | | | |
| Beginning of year | 90 | 154 | 80 | 133 | 133 | 133 | 133 | 133 |
| End of year | 80 | 154 | 133 | 133 | 133 | 133 | 133 | 133 |

¹ 2012 actual results have been restated as a result of the implementation of IAS 19. Refer to page 40 for more details.

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.

AMENDED AND EVOLVING STANDARDS

Effective January 1, 2013, retirement benefit obligations are reported using the amended *International Accounting Standards (IAS) 19 – Employee Benefits*. The transition adjustment upon adoption of the amended standard reduced opening retained earnings in 2013 by \$259 million. Other comprehensive income increased by \$51 million due to the retrospective application of the re-measurement of actuarial gains on the obligation related to 2012. In addition, 2012 pension expense was restated to \$56 million as a result of retrospective application of the standard, a \$6 million decrease when compared to the 2012 Annual Report.

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

3.5 CAPITAL MANAGEMENT

CAPITAL ADEQUACY POLICY (CAP)

We efficiently manage our capital, through our Board-approved CAP, in order to be able to meet the demands of our current and future business while maintaining our ability to withstand future, unpredictable risks. 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 our exposures even in exceptional circumstances. As a corporation, we target the maintenance of a AA solvency rating, consistent with the level targeted by leading financial institutions. 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 III framework. We define 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. We quantify demand for capital arising from credit, market, operational and business risk using rigorous models and practices.

Our 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. The CAP includes a dividend methodology to determine the dividend amount eligible to be paid.

The capital surplus is projected to be \$2.9 billion in 2013, a decrease of \$0.4 billion compared to Plan. The forecasted reduction in the demand for credit risk in both 2013 and 2014 is mainly due to credit improvement in our Aerospace portfolio. Supply of capital in 2013 has decreased as a result of a larger dividend payment than was projected in the Plan.

ELIGIBLE DIVIDENDS

As a result of discussions with our shareholder during the first half of 2013, a new approach to our dividend policy was adopted. This new approach compares our supply of capital at year-end to three components for the demand of capital:

- Our demand for capital at year-end;
- A 10% buffer of our demand for capital at year-end. This component is to allocate for changes in external environment and changes in portfolio results;
- A specific provision for explicitly identified strategic initiatives.

The outcome for year-end 2012 has been a dividend payment of \$1.44 billion and the forecast eligible dividend for 2013 is \$994 million. During the planning period we are projecting annual dividends ranging between \$200 million and \$1 billion. These calculations are based on proforma numbers and as a result the future dividends may differ from those projected in the table below. The actual dividend declared each year is determined by the Board of Directors in consultation with the Minister of International Trade and the Minister of Finance.

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'), as discussed on page 43.

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

Table 8: Statutory Limits (2012-2018)

| <i>(in millions of Canadian dollars)</i> | 2012 Actual | 2013 Plan | 2013 Fcst | 2014 Plan | 2015 Proj | 2016 Proj | 2017 Proj | 2018 Proj |
|------------------------------------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Contingent Liability Limit | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 |
| Credit insurance | 7,750 | 11,490 | 7,666 | 8,341 | 8,624 | 8,926 | 9,238 | 9,562 |
| Financial institutions insurance | 4,118 | 2,119 | 4,036 | 4,035 | 4,177 | 4,323 | 4,474 | 4,631 |
| Contract insurance and bonding | 8,161 | 8,423 | 7,898 | 6,566 | 6,951 | 6,989 | 7,047 | 7,347 |
| Political risk insurance | 1,503 | 1,314 | 1,934 | 1,947 | 1,487 | 1,539 | 1,593 | 1,648 |
| Loan guarantees | 2,104 | 2,230 | 1,741 | 2,180 | 2,545 | 2,663 | 2,822 | 2,970 |
| Position against limit | 23,636 | 25,576 | 23,275 | 23,069 | 23,784 | 24,440 | 25,174 | 26,158 |
| Percent used | 53% | 57% | 52% | 51% | 53% | 54% | 56% | 58% |
| Loans Payable Limit | 123,840 | 131,790 | 136,155 | 125,115 | 122,490 | 131,085 | 130,995 | 124,815 |
| Position against limit | 25,880 | 27,710 | 28,635 | 31,589 | 33,152 | 37,194 | 41,997 | 47,408 |
| Percent used | 21% | 21% | 21% | 25% | 27% | 28% | 32% | 38% |

3.7 ASSET/LIABILITY MANAGEMENT AND BORROWING STRATEGIES

In accordance with the *Export Development Act* and the *Financial Administration Act*, we raise our funding requirements in international and domestic capital markets by borrowing, which includes issuing bonds, commercial paper or other debt instruments.

ASSET LIABILITY AND MARKET RISK MANAGEMENT

We manage our exposures to interest rate, foreign exchange and credit risks arising from our Treasury operations through a policy framework, including risk and liquidity limits. Our policies are consistent with industry practices, approved by our Board of Directors and are compliant with the Minister of Finance Financial Risk Management Guidelines for Crown Corporations. We understand that the Office of the Superintendent of Financial Institutions plans to review the risks as well as the risk management practices across all financial crowns including EDC, and we look forward to working with OSFI in their conduct of this review.

Market risks to which we are exposed include movements in interest rates and the impact they have on our book of assets and our liability positions, as well as foreign exchange risk as we report our financial results and maintain our capital position in Canadian dollars, whereas our asset book and much of our liabilities are in U.S. dollars or other currencies.

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. We also use other credit mitigation techniques to assist in credit exposure management. Currently, we have a collateral program in which 19 of Treasury's swap counterparties participate; our 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 our credit exposure.

We continually monitor our exposure to movements in interest rates and foreign exchange rates as well as 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. Our Asset Liability Committee meets, at least quarterly, to review current and future compliance with the corporation's Market Risk Management policies. Our market risk positions are reported quarterly to the Risk Management Committee of the Board of Directors.

BORROWING STRATEGIES

STATUTORY BORROWING AUTHORITIES

The *Export Development Act* permits us to borrow and have outstanding loans payable up to a maximum of 15 times the aggregate of our current paid in capital and retained earnings as determined by the audited financial statements for the previous year. Based on the 2013 forecast, the maximum limit for 2014 is estimated at \$125.1 billion, compared to forecasted loans payable at the end of 2014 of \$31.6 billion.

We obtain Minister of Finance approval annually for our capital and money markets borrowing plans. Annual Board resolutions permit us to operate within the authorities prescribed by the Minister.

Occasionally, 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 of the borrowing plans. In such instances, we will continue to seek the approval of the Minister of Finance and report on any associated changes in the Corporate Plan.

Should market conditions warrant, we could access the Consolidated Revenue Fund. Minister of Finance authority to access this Fund is granted in the short-term and long-term borrowing approvals.

BORROWING APPROACH

The objective of our funding programs is to ensure that commitments are met within the parameters of our Liquidity Policy and Risk Management Guidelines. Funding requirements are determined from a base amount as established in the Corporate Plan, adding a buffer for increased needs due to stressed market conditions or additional new business demand.

We issue commercial paper (CP) to meet operating requirements and may, in cases of restricted capital markets access, issue CP to fund long-term requirements for short durations. We issue capital market debt to meet requirements for maturing debt, our loan asset portfolio, the liquidity portfolio and future lending activities. The Treasury team seeks to maximize market access and flexibility, price debt issues fairly in the primary market and closely monitor secondary market performance to minimize debt service costs.

Derivatives are used as part of the asset/liability management process. Our policies prohibit the issuance of any financial instrument, derivative, or structured note whose value and hence financial risk cannot be calculated, monitored and managed on a timely basis.

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

SOURCES OF FINANCING

MONEY MARKETS BORROWING PROGRAM

We issue commercial paper in the money markets, in various currencies under multiple platforms, to fund our short-term financial commitments as well as to manage interruptions in capital markets access and unpredictable cash flow demands.

The Liquidity Policy, currently under review, requires us to maintain sources of liquidity for a minimum of three months of forecast cash requirements. Sources of liquidity are unused CP capacity and investments. Proposed changes to the Liquidity Policy are forecast to require an increase in our liquidity portfolio holdings.

Unpredictable cash flow demands most often result from undrawn revolver commitments, estimated at U.S. \$11.4 billion at December 31, 2014. These facilities range in size from approximately U.S. \$500 thousand to U.S. \$800 million and can provide for same day advances. Additional committed facilities which have not yet been drawn are forecast to total U.S. \$3.3 billion at the end of 2014.

We are seeking approval from the Minister of Finance for a money markets borrowing program limit of U.S. \$12.0 billion. The limit will enable us to meet the forecast peak in CP outstanding balances of U.S. \$7.7 billion while ensuring that the unused CP capacity combined with the investment portfolio is sufficient to meet Liquidity Policy requirements, unpredictable cash flow demands and unanticipated interruptions in capital markets access. We are also seeking approval to approach the Minister for additional money markets capacity of U.S. \$2.0 billion should business requirements necessitate access to additional funding.

CAPITAL MARKETS BORROWING PROGRAM

The capital markets borrowing program diversifies its funding sources by offering debt securities to investors worldwide. Typical capital markets instruments include, but are not limited to: benchmark global bonds, plain vanilla bonds, structured and medium-term notes.

Structured and medium-term notes may be used to smooth the maturity profile, respond to investor demand or access local currency funding in priority emerging markets. These notes can be issued in a variety of maturities including longer-dated issues with callable features. Longer dated callable instruments include an option for us 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.

The Corporate Plan projects a baseline borrowing requirement of U.S. \$11.1 billion with potential additional long-term requirements of U.S. \$2.4 billion. We are therefore requesting a capital markets borrowing limit of U.S. \$13.5 billion from the Minister of Finance.

PRIMARY USES OF FINANCING

Refinancing of Maturing Debt – Maturing debt is refinanced through new issuance.

Increased Lending Activity (Term Loan and Revolver New Business) – Positive net loan disbursements are forecast in 2014 compared to flat net loan disbursements originally forecast for 2013.

Held-for-Trading Marketable Securities – Increases in the level of assets held for liquidity purposes.

POTENTIAL INCREASES IN REQUIREMENTS

Increased Lending and Investment Activity – New business activity requirements could increase further if a global recovery outpaces our forecasts and/or world liquidity is reduced. Additional lending and investment program activity could increase borrowing requirements.

Reduce CP Outstanding – An increase in capital markets funding in response to favourable market conditions may permit us to reduce the amount of CP outstanding.

Pre-Funding of 2015 Business Facilitated – We may seek to pre-fund some of our 2015 capital markets requirements to minimize debt service costs and lock-in longer term funding.

Table 9: Capital Markets Borrowing Requirement Projection for 2014

| <i>(in millions of U.S. dollars)</i> | USD | 2014 Plan |
|-----------------------------------------------------------------------|-------|---------------|
| Decrease/(Increase) in Cash from Operations | (928) | |
| Net Loan Disbursements | 2,372 | |
| Net Increase (Decrease) in Cash | - | |
| Eligible Dividend | 979 | |
| Activity from Operations | | 2,423 |
| Funding Required for Change in Short-Term Loans Payables | 118 | |
| Funding Required for Change in Held-For-Trading Marketable Securities | 500 | |
| Refinancing of Debt Maturities | 7,843 | |
| Buybacks | 250 | |
| Activity from Liabilities | | 8,711 |
| Forecast Borrowing Requirements for Corporate Plan | | 11,134 |
| Potential Increases to Cash Requirements | | |
| Changes to assumption on Lending Activity | 600 | |
| Changes to assumption on Revolving Facilities | 750 | |
| Reduction of Outstanding Commercial Paper | 500 | |
| Pre-funding of 2015 Volumes/Maturities | 500 | |
| Potential Additional Borrowing Requirements | | 13,484 |

Table 10: Projected Borrowing Plans (2012 – 2018)

| <i>(in millions of Canadian dollars)</i> | 2012 Actual | 2013 Plan | 2013 Fcst | 2014 Plan | 2015 Proj | 2016 Proj | 2017 Proj | 2018 Proj |
|-------------------------------------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Capital Markets Borrowing Limit | | | | | | | | |
| (U.S. \$9.0 billion) ¹ | 8,940 | 9,051 | 9,141 | - | - | - | - | - |
| Position | 8,768 | 6,476 | 8,229 | 11,309 | 6,654 | 6,166 | 11,053 | 15,640 |
| Percent used | 98% | 72% | 90% | - | - | - | - | - |
| Short-Term Borrowing Limit | | | | | | | | |
| (U.S. \$10.0 billion) ¹ | 7,946 | 10,057 | 10,156 | - | - | - | - | - |
| Position | 4,435 | 5,809 | 5,535 | 5,383 | 5,627 | 5,627 | 5,870 | 6,480 |
| Percent used | 56% | 58% | 55% | - | - | - | - | - |

¹ The limits are set each year in consultation with the Department of Finance, and accordingly, there are no limits set for 2014 to 2018.

3.8 OPERATION OF SUBSIDIARY

We 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.

During 2013 and over the planning period, no new financing vehicles and no potential business transactions are anticipated. A shareholder distribution amounting to \$79 million is planned for 2014. This amount represents a dividend of \$33 million and a return of the stated capital of \$46 million which would represent substantially all of the assets of Exinvest Inc. We are maintaining the subsidiary so that it will be available for future initiatives if required.

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 11: Exinvest Inc. Projected Statement of Income (2012-2018)

| <i>for the year ended December 31</i> <i>(in millions of Canadian dollars)</i> | 2012 Actual | 2013 Plan | 2013 Fcst | 2014 Plan | 2015 Proj | 2016 Proj | 2017 Proj | 2018 Proj |
|-----------------------------------------------------------------------------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | | | | | | | | |
| Marketable securities | 1 | – | 1 | – | – | – | – | – |
| | 1 | – | 1 | – | – | – | – | – |
| Expenses | | | | | | | | |
| Administrative and other | 1 | – | – | – | – | – | – | – |
| | 1 | – | – | – | – | – | – | – |
| Net Income | – | – | 1 | – | – | – | – | – |
| Retained earnings at beginning of year | 32 | 33 | 32 | 33 | – | – | – | – |
| Dividend | – | – | – | (33) | – | – | – | – |
| Retained earnings at end of year | 32 | 33 | 33 | – | – | – | – | – |

Table 12: Exinvest Inc. Projected Statement of Financial Position (2012-2018)

| <i>as at December 31</i> <i>(in millions of Canadian dollars)</i> | 2012 Actual | 2013 Plan | 2013 Fcst | 2014 Plan | 2015 Proj | 2016 Proj | 2017 Proj | 2018 Proj |
|----------------------------------------------------------------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Assets | | | | | | | | |
| Cash and marketable securities | 77 | 79 | 78 | – | – | – | – | – |
| Other | 1 | – | 1 | – | – | – | – | – |
| Total Assets | 78 | 79 | 79 | – | – | – | – | – |
| Liabilities and Equity | | | | | | | | |
| Share capital | 46 | 46 | 46 | – | – | – | – | – |
| Retained earnings | 32 | 33 | 33 | – | – | – | – | – |
| Total Liabilities and Equity | 78 | 79 | 79 | – | – | – | – | – |

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.

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 2014-2018.
- 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. EDC's temporary powers were extended until 2014 when it is expected that revised regulations will come into effect. 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:

"The Corporation is established for the purposes of supporting and developing, directly or indirectly,

(a) domestic trade and Canadian capacity to engage in that trade and to respond to domestic business opportunities; and

(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. This framework allows us to be more responsive and resilient, while focusing our efforts on improving Canada's trade and investment performance.

Our 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.

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.

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.

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, 2013 such commitments and liabilities totaled \$3.2 billion.

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 2013, the Government of Canada extended until March 2014 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 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.

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.

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.

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].

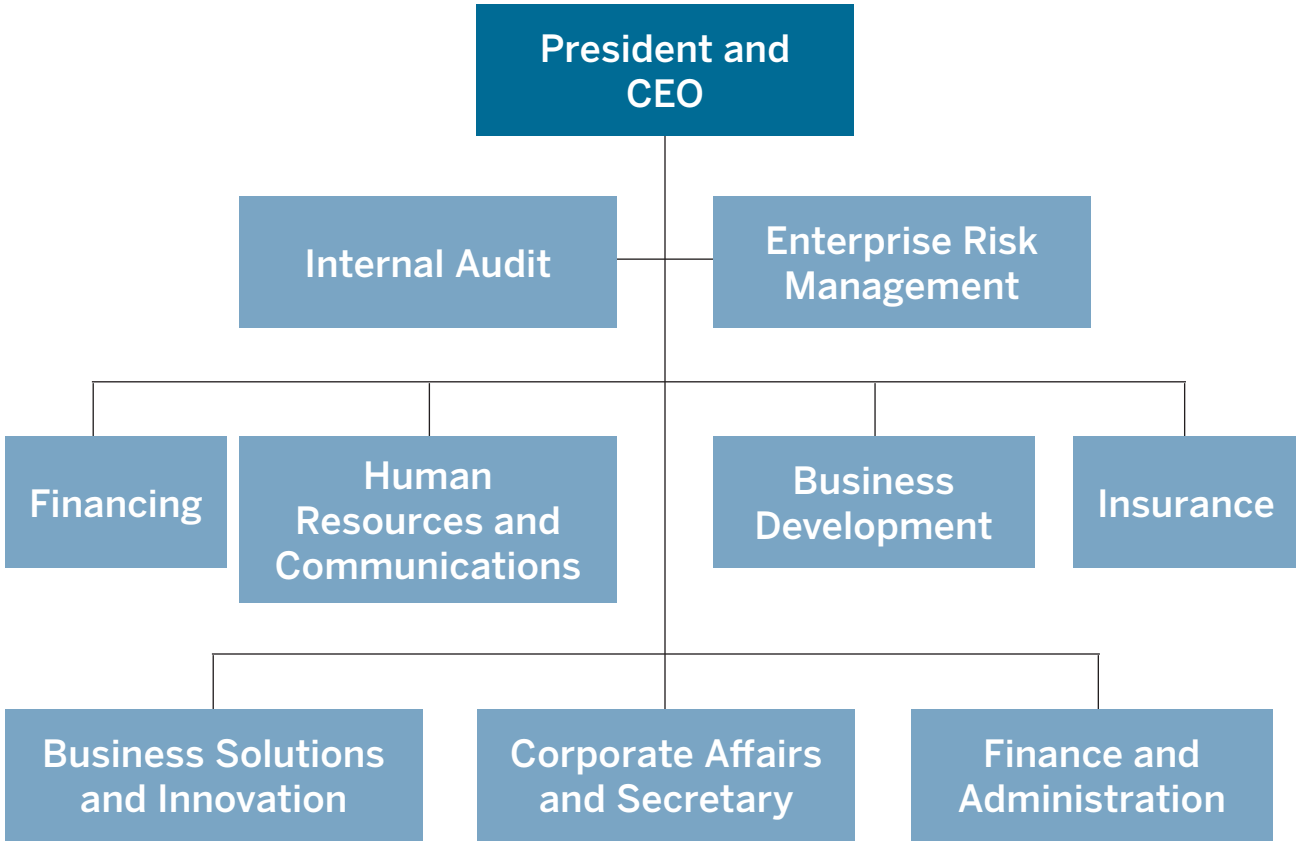
The Act also stipulates that an audit of the design and implementation of EDC's Environmental Review Directive (the Environment Audit) must be undertaken by the Office of the Auditor General (OAG) every five years. The 2008 review was presented to the EDC's Board of Directors and was tabled in Parliament in June 2009 [a copy of the review is available at <http://www.oag-bvg.gc.ca>].

ACCOUNTABILITY TO PARLIAMENT

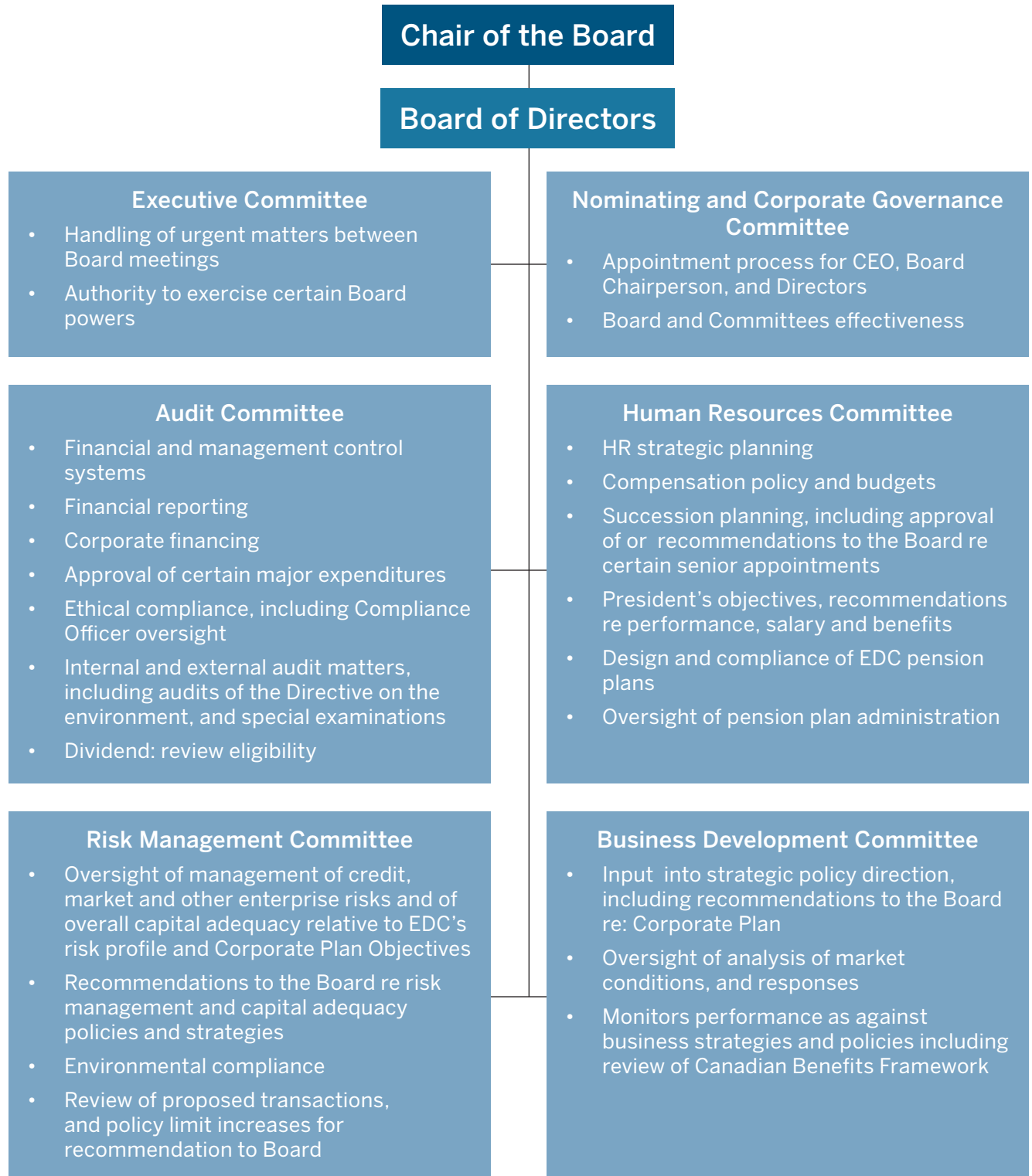
The Government of Canada primarily regulates Crown corporations through their enabling legislation and through the FAA. EDC is currently listed under Part I of Schedule III to the FAA, and as such is required to, among other things:

- submit an Annual Report, a Corporate Plan and an Operating Budget to the responsible Minister;
- make public the quarterly financial report within 60 days of quarter-end; and
- undergo regular audits by the OAG.

MANAGERIAL AND ORGANIZATIONAL STRUCTURE



BOARD AND COMMITTEE STRUCTURE



EDC'S FINANCING AND INSURANCE SOLUTIONS

INSURANCE SOLUTIONS

EDC has a range of insurance solutions to help companies protect their international business whether they have one contract, one customer or want support for their entire book of business. Our insurance can help companies access the working capital they need and protect their assets as they grow their international sales.

ACCOUNTS RECEIVABLE INSURANCE (ARI)

Companies can use ARI to protect all of their international sales against a wide range of risks, from a customer not being able to pay to political upheaval in a particular market. Knowing that their risks are covered also means financial institutions may be more willing to increase access to working capital.

SINGLE BUYER INSURANCE

Single Buyer Insurance is an affordable way to insure unlimited sales to one customer for 180 days.

CONTRACT FRUSTRATION INSURANCE (CFI)

For specific export contracts for services, capital goods or projects, this type of insurance is a cost-effective way to protect sales from a variety of risks.

POLITICAL RISK INSURANCE (PRI)

Many exciting opportunities exist in markets where there is also a higher chance of political upheaval. With EDC's PRI companies can do business in these select markets with confidence.

PERFORMANCE SECURITY INSURANCE

If a company is worried that their customer is going to call the guarantee that they put up as assurance that they will deliver the goods or services as promised, they can protect themselves with EDC's Performance Security Insurance.

DOMESTIC CREDIT INSURANCE

EDC can provide re-insurance for domestic receivables to Canada's private credit insurers, which helps cover a company against a wide range of commercial risks.

BONDING AND GUARANTEE SOLUTIONS

Posting bonds and guarantees is a necessary part of exporting that can tie up a company's cash flow. We have a range of bonding and guarantee solutions, offered in partnership with financial institutions, which can help companies to free up the working capital they need.

ACCOUNT PERFORMANCE SECURITY GUARANTEE

With EDC's Account Performance Security Guarantee, a company's financial institution is fully protected if their customer demands payment against the guarantee the bank provided to the customer on the company's behalf. This can encourage banks to forego the collateral usually required to post such guarantees.

SURETY BOND INSURANCE

A surety company can, similar to a financial institution, issue a contractual or performance bond on a company's behalf. EDC's Surety Bond Insurance can protect a company's existing surety company in the event of a call, encouraging them to provide the company with the bonding capacity they need to sell internationally. If finding a surety company is an issue, EDC can also help companies fulfill their bonding requirements through our various partnerships.

FOREIGN EXCHANGE FACILITY GUARANTEE

EDC's Foreign Exchange Facility Guarantee encourages a company's foreign exchange provider to forego the need for collateral when they sign a foreign exchange contract to lock in exchange rates. This means companies can mitigate fluctuations in exchange rates without tying up their cash flow.

DOMESTIC SURETY BONDING AND BANK GUARANTEES

Through a partnership with Canadian financial institutions, bonding and surety companies, EDC can provide re-insurance to surety companies for bonds they provide to cover a company's domestic business.

FINANCING

EXPORT GUARANTEE PROGRAM

EDC can provide a guarantee to a company's financial institution to encourage them to extend the financing companies need through the Export Guarantee Program.

SUPPLIER FINANCING

For investment-grade buyers - those rated BBB or higher - EDC can provide Supplier Financing and purchase promissory notes under the financing terms of a company's commercial contract, giving a company the equivalent of a cash sale.

FOREIGN BUYER FINANCING

Having a financing proposal for a prospective customer can be a critical part of a sales pitch. EDC's Foreign Buyer Financing can give a company that and all the benefits of a cash sale because EDC disburses the funds directly to the company and collects from the customer.

PROJECT FINANCE

When a company wants to participate in a large-scale global project or joint venture, EDC can provide advice, underwriting expertise, and project finance support across a variety of industry sectors.

DOMESTIC FINANCING

EDC's domestic financing is available to qualified Canadian companies involved in trade-related sectors of the economy in the form of direct loans, co-lending or guarantees.