Changing Trade

Quarterly Financial Report
March 31, 2017
Unaudited

Canada

EDC

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Caution regarding forward-looking statements
This document contains projections and other forward-looking statements regarding future events. Such statements require us to make assumptions and are subject to inherent risks and uncertainties. These may cause actual results to differ materially from expectations expressed in the forward-looking statements.

OVERVIEW

Export Development Canada (EDC) is Canada's export credit agency. Our mandate is to support and develop Canada's trade, and the capacity of Canadian companies to participate in and respond to international business opportunities. We provide insurance and financial services, bonding products, small business solutions as well as online credit risk management tools. Our customers are Canadian exporters, investors and their international buyers. We place a particular emphasis on small and medium enterprises by developing tools to help them succeed in international markets. EDC is a Crown corporation, wholly owned by the Government of Canada and accountable to Parliament through the Minister of International Trade. We are financially self-sustaining and do not receive parliamentary appropriations; our revenue is generated primarily by collecting interest on our loans, fees on our guarantee products and premiums on our insurance products.

Economic Environment

After a year marked by both political and economic instability, the first quarter of 2017 seemed to mark a pause in the volatility. While global financial markets had responded positively to the U.S. presidential election and the new President's assumed economic policy plans, the increasing uncertainty around the President's ability to steer legislation through congress had begun to weigh on markets by the end of the quarter.

In Europe, apprehensions over increasing populism eased slightly as the elections in the Netherlands, the first in a super cycle of European elections in 2017 returned a parliament with modest gains for populist parties. Following last year's vote to exit Britain from the European Union (EU), the first quarter of 2017 saw the UK parliament approve a bill enabling its departure. This two year process provides a hard deadline to set up a new and complex economic relationship between the UK and the EU.

As the U.S. labour market continued to tighten and see increasing participation and wage growth, the U.S. Federal Reserve raised interest rates in March. The agreement to restrain production between OPEC members along with Russia resulted in a significant recovery in the U.S. energy sector. By the end of March, the number of rigs drilling in the U.S. had recovered to a level not experienced since September 2015. Further boosting the strength of the U.S. economy was the decline of the U.S. dollar which will temper imports while increasing exports.

In Canada, exports retained most of the strength they had built since beginning to rebound in June 2016. Additionally, in real terms, the shipments of both energy products and industrial machinery and equipment were higher during the first quarter of 2017 than a year earlier. However, the U.S. President's vow to renegotiate trade relationships garnered significant attention and is affecting business confidence. According to the Bank of Canada, few firms have seen any actual effects from the new administration in the first quarter of 2017, though many remain worried about negative risks, including U.S. protectionism.

Business Facilitated

Business facilitated in our financing program declined by 46% when compared to the prior year. While the number of direct lending transactions remained constant, the dollar value has decreased.

Business facilitated within our credit insurance product group increased by 8% primarily due to the timing of an insurance transaction for one large customer.

Business facilitated within our financial institutions insurance product group increased by 68% due to a growth in demand for the product by an existing policyholder.

	For the three months ended	
	Mar	Mar
(in millions of Canadian dollars)	**2017**	2016
Business Facilitated		
Direct lending	**2,415**	4,095
Project finance	**391**	1,235
Loan guarantees	**294**	390
Investments	**4**	14
Total financing and investments	**3,104**	5,734
Credit insurance	**13,826**	12,759
Financial institutions insurance	**2,818**	1,676
Contract insurance and bonding	**1,142**	966
Political risk insurance	**177**	247
Total insurance	**17,963**	15,648
Total business facilitated	**$21,067**	$21,382

Business facilitated with small and medium-sized enterprises was $3.8 billion for the first three months of 2017, consistent with the same period in 2016.

SUMMARY OF FINANCIAL RESULTS

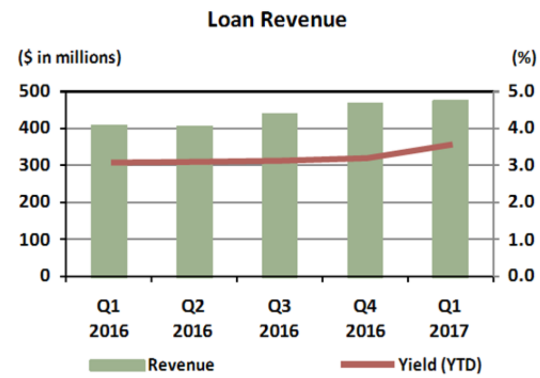
Financial Performance

	For the three months ended		
	Mar	Dec	Mar
(in millions of Canadian dollars)	**2017**	2016	2016
Net financing and investment income	**334**	340	329
Net insurance premiums and guarantee fees*	**60**	58	58
	394	398	387
Other (income) expenses	**80**	100	(57)
Administrative expenses	**104**	114	86
Provision for (reversal of) credit losses	**83**	(235)	87
Claims-related expenses (recovery)	**35**	(47)	24
Net income	**$92**	$466	$247
Period average U.S.$ equivalent of CAD 1.00	**0.76**	0.75	0.73

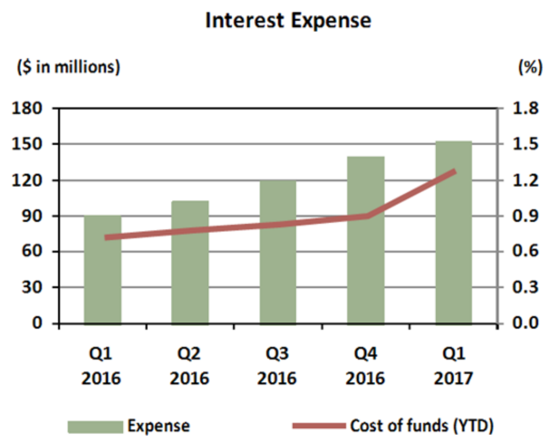
* *Includes loan guarantee fees.*

While net revenue from operations remained stable between reporting periods, we experienced fluctuations in our net income as a result of changes in provisioning requirements and claims-related expenses. In addition we experienced volatility in the fair value of our financial instruments due to market conditions, the impact of which is included in other (income) expenses. These changes are further discussed beginning on page 8.

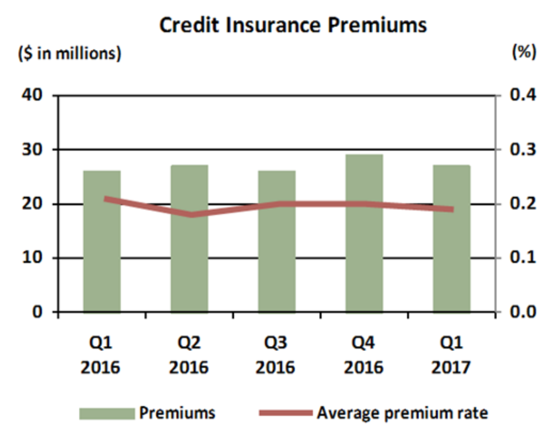
Total loan yield has increased since the fourth quarter of 2016 mainly due to increases in U.S. interest rates over the past several months. Although loan revenue is higher than the prior quarter, it did not increase at the same pace as loan yields due to a decrease in our gross loans receivable. Refer to the following page for further details.



Interest expense increased during the first three months of 2017 mainly as a result of the increase in U.S interest rates. The majority of our funding is floating rate and denominated in U.S. dollars, consistent with our assets.



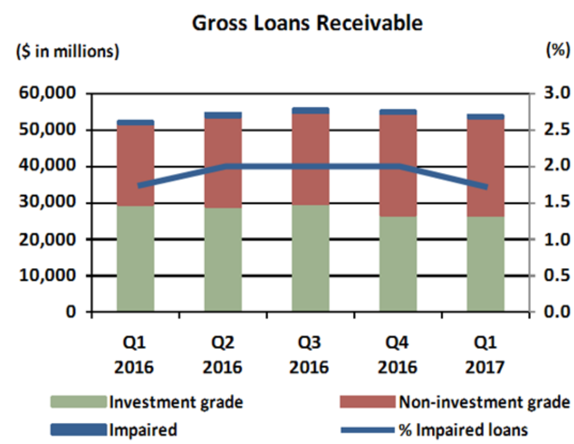
The average premium rate for the credit insurance product group remained consistent when compared to the prior quarter. Minor fluctuations occur between periods due to changes in the activity for higher volume accounts with lower premium rates.



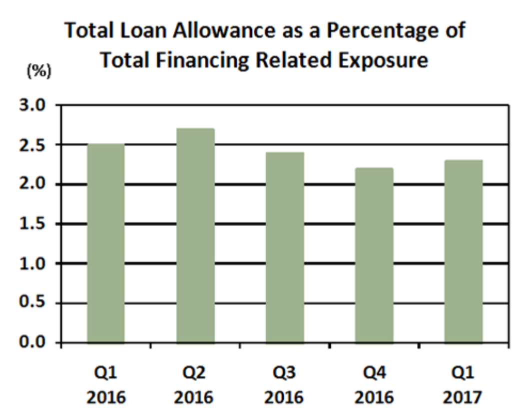
Financial Position

As at *(in millions of Canadian dollars)*	**Mar 2017**	Dec 2016	Mar 2016
Total assets	**62,129**	63,124	59,821
Total liabilities	**53,038**	53,361	50,933
Equity	**9,091**	9,763	8,888
Gross loans receivable	**54,102**	55,375	52,424
Total allowances	**2,212**	2,145	2,334
Period-end U.S.$ equivalent of CAD 1.00	**0.75**	0.74	0.77

Gross loans receivable decreased in the first quarter due to net repayments and foreign exchange translation. Impaired loans as a percentage of gross loans receivable declined mainly due to loan restructurings within our aerospace portfolio. The increase in non-investment grade exposures since the third quarter of 2016 is primarily due to downward credit migration of certain obligors in the oil and gas, mining, and light manufacturing sectors.



Total loan allowance as a percentage of total financing related exposure has increased in the first quarter of 2017 primarily due to net downward credit migration in the aerospace sector.



Impact of Foreign Exchange Translation on Financial Results

Our foreign currency-denominated results are impacted by exchange rate fluctuations. The strengthening of the Canadian dollar at the end of the first quarter relative to the prior quarter along with a stronger average exchange rate during the quarter had an unfavourable impact on our first quarter financial results and financial position. The following table reflects the estimated impact on our financial results had the Canadian dollar remained stable relative to the U.S. dollar:

	Compared to	
(in millions of Canadian dollars)	Dec 2016	Mar 2016
Financial Results		
Increase in net income	1	5
Increase in business facilitated	131	632
Financial Position		
Increase (decrease) in loans receivable	483	(1,031)
Increase (decrease) in loans payable	549	(1,172)

Risk Management

Our business activities expose us to a wide variety of risks including strategic, financial and operational risks. We manage our risks by seeking to ensure that business activities and transactions provide an appropriate balance of return for the risks assumed and remain within our risk appetite. For a more comprehensive discussion on our risk management, please refer to pages 68-76 of our 2016 Annual Report. Refer to Note 12 of the accompanying financial statements for details on financial instrument risks.

FIRST QUARTER HIGHLIGHTS

	Three months ended	
(in millions of Canadian dollars)	**Mar 2017**	Dec 2016
Income before provisions and claims-related expenses	**210**	184
Provision for (reversal of) credit losses	**83**	(235)
Claims-related expenses (recovery)	**35**	(47)
Net income	**$92**	$466

Net income was $92 million, a decrease of $374 million when compared to the previous quarter primarily due to higher loan provisioning requirements and an increase in claims-related expenses.

We recorded a **provision charge** of $83 million in the first quarter of 2017 compared to a reversal of $235 million in the previous quarter. The $83 million provision is mainly due to downward credit migration in our portfolio. In the fourth quarter of 2016, we recorded a provision reversal of $235 million largely due to the impact of updates to the models used to generate the probability of default and loss given default assumptions used in the allowance calculation as well as upward credit migration in our portfolio.

We experienced $35 million in **claims-related expenses** in the first quarter compared to a recovery of $47 million in the prior quarter. In the fourth quarter of 2016, we updated the methodology to determine the severity of loss assumption used in the calculation of our allowance for claims on insurance. This resulted in a reduction in the allowance and a claims-related recovery.

Other items of note in the first quarter:

In the first quarter of 2017, we paid a dividend of $786 million to the Government of Canada (2016 – $500 million declared in the first quarter and paid in the second quarter).

FINANCIAL RESULTS – YEAR TO DATE

Prior Year Comparison

Net income for the first three months of 2017 was $155 million lower than the net income reported for the same period in 2016 primarily due to fluctuations in the fair value of our financial instruments included in other income. Refer to Note 18 for further details.

Corporate Plan Comparison

Financial Performance

	Three months ended		Year ended
	Mar 2017	Mar 2017	Dec 2017
(in millions of Canadian dollars)	**Actual Results**	Corporate Plan	Corporate Plan
Net financing and investment income	**334**	314	1,258
Net insurance premiums and guarantee fees*	**60**	54	243
Other (income) expenses	**80**	(8)	(31)
Administrative expenses	**104**	110	458
Provision for credit losses	**83**	104	221
Claims-related expenses	**35**	15	59
Net income	**92**	147	794
Other comprehensive income	**22**	26	102
Comprehensive income	**$114**	$173	$896

**Includes loan guarantee fees.*

Net income for the first three months of 2017 was $55 million lower than the Corporate Plan primarily due to an increase in other expense. Due to the volatility and difficulty in estimating fair value gains or losses on financial instruments, a forecast for these items is not included in the Corporate Plan.

Financial Position

As at	**Mar 2017**	Mar 2017	Dec 2017
(in millions of Canadian dollars)	**Actual Results**	Corporate Plan	Corporate Plan
Cash and marketable securities	**7,078**	6,617	6,036
Derivative instruments	**256**	519	519
Loans receivable	**53,994**	54,980	58,705
Allowance for losses on loans	**(1,604)**	(1,823)	(1,826)
Investments at fair value through profit or loss	**1,048**	900	978
Other assets	**1,357**	545	537
Total Assets	**$62,129**	$61,738	$64,949
Loans payable	**49,226**	49,015	51,669
Derivative instruments	**2,438**	2,400	2,400
Allowance for losses on loan commitments	**82**	78	82
Premium and claims liabilities	**633**	592	481
Other liabilities	**659**	719	660
Equity	**9,091**	8,934	9,657
Total Liabilities and Equity	**$62,129**	$61,738	$64,949

Loans receivable totalled $54 billion at March 31, 2017, $1 billion less than Corporate Plan, primarily as a result of higher than anticipated net repayments in the first three months of 2017 and a slightly stronger Canadian dollar than projected in the Plan.

Other assets include $0.7 billion of trade date receivables which are mainly composed of funds receivable on long-term debt issued. Funds receivable on financial instruments that have traded but not yet settled are recognized in other assets.

NON-IFRS PERFORMANCE MEASURES

Claims Ratio – Credit Insurance Product Group

The claims ratio expresses net claims incurred as a percentage of net written premium. Net claims incurred include claims paid net of recoveries, estimated recoveries and changes in actuarial liabilities. This ratio only includes credit insurance activities.

Reinsurance ceded reflects various partnerships we have with reinsurers in offering and managing insurance capacity.

Net claims incurred include claims paid net of recoveries and estimated recoveries of $18 million (2016 – $16 million) and a decrease in actuarial liabilities of $1 million (2016 – $5 million).

	Three months ended	
(in millions of Canadian dollars)	**Mar 2017**	Mar 2016
Premiums earned	**25**	26
Reinsurance ceded	**(1)**	(2)
Net written premium	**$24**	$24
Net claims incurred	**$17**	$11
Claims ratio %	**70.8%**	45.8%

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these condensed consolidated quarterly financial statements in accordance with the Treasury Board of Canada *Standard on Quarterly Financial Reports for Crown Corporations* and for such internal controls as management determines is necessary to enable the preparation of condensed consolidated quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the condensed consolidated quarterly financial statements.

These condensed consolidated quarterly financial statements have not been audited or reviewed by an external auditor.

Based on our knowledge, these unaudited condensed consolidated quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at March 31, 2017 and for the periods presented in the condensed consolidated quarterly financial statements.

Benoit Daignault,
President and CEO

Ken Kember,
Senior Vice-President & Chief Financial Officer

Ottawa, Canada
May 5, 2017

Export Development Canada
Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at
(in millions of Canadian dollars)

	Notes	**Mar 2017**	Dec 2016	Mar 2016
Assets				
Cash		**141**	330	41
Marketable securities		**6,937**	7,059	6,794
Derivative instruments	7	**256**	324	375
Assets held-for-sale		**47**	42	15
Loans receivable	3,4	**53,994**	55,250	52,270
Allowance for losses on loans	5	**(1,604)**	(1,552)	(1,695)
Investments at fair value through profit or loss		**1,048**	1,005	866
Recoverable insurance claims	6	**56**	63	54
Reinsurers' share of premium and claims liabilities	8	**103**	116	106
Other assets		**791**	156	722
Retirement benefit asset		**72**	43	-
Property, plant and equipment		**53**	55	51
Intangible assets		**96**	92	76
Building under finance lease		**139**	141	146
Total Assets		**$62,129**	$63,124	$59,821
Liabilities and Equity				
Accounts payable and other credits		**86**	142	100
Dividend payable	10	**-**	-	500
Loans payable		**49,226**	49,101	46,687
Derivative instruments	7	**2,438**	2,819	2,354
Obligation under finance lease		**157**	158	161
Retirement benefit obligations		**245**	240	240
Allowance for losses on loan commitments	5	**82**	78	107
Premium and claims liabilities	8	**633**	656	626
Loan guarantees		**171**	167	158
		53,038	53,361	50,933
Financing commitments (Note 3) and contingent liabilities (Note 9)				
Equity				
Share capital	10	**1,333**	1,333	1,333
Retained earnings		**7,758**	8,430	7,555
		9,091	9,763	8,888
Total Liabilities and Equity		**$62,129**	$63,124	$59,821

The accompanying notes are an integral part of these consolidated financial statements.

These financial statements were approved for issuance by the Board of Directors on May 5, 2017.

Herbert M. Clarke
Director

Benoit Daignault
Director

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in millions of Canadian dollars)

		For the three months ended		
	Notes	**Mar 2017**	Dec 2016	Mar 2016
Financing and investment revenue:				
Loan	13	**475**	467	408
Finance lease		**-**	-	1
Marketable securities		**20**	19	18
Investments		**2**	4	2
Total financing and investment revenue		**497**	490	429
Interest expense	14	**152**	139	90
Leasing and financing related expenses		**11**	11	10
Net Financing and Investment Income		**334**	340	329
Loan Guarantee Fees		**10**	11	10
Insurance premiums and guarantee fees		**59**	58	55
Reinsurance assumed		**2**	-	2
Reinsurance ceded		**(11)**	(11)	(9)
Net Insurance Premiums and Guarantee Fees	15	**50**	47	48
Other (Income) Expenses	18	**80**	100	(57)
Administrative Expenses	19	**104**	114	86
Income before Provision and Claims-Related Expenses		**210**	184	358
Provision for (Reversal of) Credit Losses	16	**83**	(235)	87
Claims-Related Expenses (Recovery)	17	**35**	(47)	24
Net Income		**92**	466	247
Other comprehensive income (loss):				
Pension plan re-measurement		**22**	188	(24)
Comprehensive Income		**$114**	$654	$223

The accompanying notes are an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(in millions of Canadian dollars)

		For the three months ended		
	Notes	**Mar 2017**	Dec 2016	Mar 2016
Share Capital	10	**1,333**	1,333	1,333
Retained Earnings				
Balance beginning of period		**8,430**	7,776	7,832
Net income		**92**	466	247
Other comprehensive income (loss)				
Pension plan re-measurement		**22**	188	(24)
Dividends	10	**(786)**	-	(500)
Balance end of period		**7,758**	8,430	7,555
Total Equity at End of Period		**$9,091**	$9,763	$8,888

The accompanying notes are an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions of Canadian dollars)

	For the three months ended		
	Mar 2017	Dec 2016 *(Restated - Note 2)*	Mar 2016 *(Restated - Note 2)*
Cash Flows from (used in) Operating Activities			
Net income	**92**	466	247
Adjustments to determine net cash flows from (used in) operating activities			
Provision for (reversal of) credit losses	**83**	(235)	87
Actuarial change in the net allowance for claims on insurance	**12**	(64)	4
Depreciation and amortization	**7**	8	8
Realized (gains) and losses	**(7)**	23	4
Changes in operating assets and liabilities			
Change in accrued interest and fees receivable	**-**	(56)	(56)
Change in fair value of marketable securities	**6**	93	(66)
Change in fair value of loans payable	**57**	(301)	190
Change in derivative instruments receivable	**(189)**	400	(248)
Other	**(43)**	118	(616)
Loan disbursements	**(5,086)**	(6,099)	(5,368)
Loan repayments and principal recoveries from loan asset sales	**6,003**	7,293	3,218
Net cash flows from (used in) operating activities	**935**	1,646	(2,596)
Cash Flows from (used in) Investing Activities			
Disbursements for investments	**(71)**	(77)	(51)
Receipts from investments	**22**	58	23
Finance lease repayments	**-**	-	4
Purchases of marketable securities	**(589)**	(297)	(911)
Sales/maturities of marketable securities	**649**	283	367
Proceeds on sale of assets held-for-sale	**-**	4	-
Net cash flows from (used in) investing activities	**11**	(29)	(568)
Cash Flows from (used in) Financing Activities			
Issue of long-term loans payable	**4,226**	2,108	3,992
Repayment of long-term loans payable	**(2,686)**	(4,107)	(3,254)
Issue of short-term loans payable	**6,010**	9,137	10,044
Repayment of short-term loans payable	**(7,900)**	(7,504)	(8,360)
Disbursements from sale/maturity of derivative instruments	**-**	(169)	(309)
Dividend paid	**(786)**	-	-
Net cash flows from (used in) financing activities	**(1,136)**	(535)	2,113
Effect of exchange rate changes on cash	**-**	5	(72)
Net increase (decrease) in cash and cash equivalents	**(190)**	1,087	(1,123)
Cash and cash equivalents			
Beginning of period	**1,891**	804	2,066
End of period	**$1,701**	$1,891	$943
Cash and cash equivalents are comprised of			
Cash	141	330	41
Cash equivalents included within marketable securities	1,560	1,561	902
	$1,701	$1,891	$943
Operating Cash Flows from Interest			
Cash paid for interest on loans payable	**$127**	$127	$61
Cash received for interest on loan assets and marketable securities	**$428**	$446	$378

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

1. Significant Accounting Policies

Basis of Presentation

Our condensed consolidated financial statements comply with the *Standard on Quarterly Financial Reports for Crown Corporations* issued by the Treasury Board of Canada.

These condensed interim consolidated financial statements follow the same accounting policies and methods of computation as our audited consolidated financial statements for the year ended December 31, 2016. They should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2016 and the accompanying notes as set out on pages 92-139 of our 2016 Annual Report.

Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations

There were no new standards, interpretations, amendments or improvements issued by the IASB requiring mandatory adoption in the first quarter of 2017.

(b) Standards, amendments and interpretations not yet in effect

There were no standards or amendments issued by the IASB in the first quarter assessed as having a possible effect on EDC in the future.

Other upcoming standards – The IASB is currently working on projects related to insurance contracts and the disclosure initiative focusing on materiality. Revisions to standards as a result of these ongoing projects could potentially have a significant impact on EDC’s financial statements in future years.

Use of Estimates and Key Judgments

The preparation of financial statements requires the use of estimates and key judgments. Judgment is required in the selection of accounting policies, and their application requires the use of estimates and assumptions to arrive at the reported carrying values of our assets and liabilities. Areas where management has made use of significant estimates and exercised judgment include the allowance for losses on loans, loan commitments and loan guarantees, assets held-for-sale, premium and claims liabilities, recoverable insurance claims, retirement benefit obligations and financial instruments measured at fair value. Refer to page 93 of our 2016 Annual Report for details.

2. Restatement of Consolidated Statement of Cash Flows

Effective January 1, 2017, we have reclassified a portion of our marketable securities as cash equivalents. This change is being made to provide enhanced disclosure of the nature of these assets. The securities reclassified have a term to maturity of 90 days or less from the date of their acquisition, are considered highly liquid, readily convertible to known amounts of cash and subject to an insignificant risk of change in value. As a result of the change in presentation related to cash and cash equivalents, the condensed interim consolidated statement of cash flows, for the three months ended December 31, 2016 and March 31, 2016 has been restated. The changes made are summarized in the following table:

Adjustments to Statement of Cash Flows

	For the three months ended					
			Dec 2016			Mar 2016
(in millions of Canadian dollars)	Previously Reported	Adjustments	Restated Balance	Previously Reported	Adjustments	Restated Balance
Cash Flows from (used in) Operating Activities						
Net cash flows from (used in) operating activities	1,646	-	1,646	(2,596)	-	(2,596)
Cash Flows from (used in) Investing Activities						
Disbursements for investments	(77)	-	(77)	(51)	-	(51)
Receipts from investments	58	-	58	23	-	23
Finance lease repayments	-	-	-	4	-	4
Purchases of marketable securities	(14,512)	14,215	(297)	(18,442)	17,531	(911)
Sales/maturities of marketable securities	13,500	(13,217)	283	18,556	(18,189)	367
Proceeds on sale of assets held-for-sale	4	-	4	-	-	-
Net cash flows from (used in) investing activities	(1,027)	998	(29)	90	(658)	(568)
Cash Flows from (used in) Financing Activities						
Net cash flows from (used in) financing activities	(535)	-	(535)	2,113	-	2,113
Effect of exchange rate changes on cash flows	(1)	6	5	(4)	(68)	(72)
Net increase in cash and cash equivalents	83	1,004	1,087	(397)	(726)	(1,123)
Cash and cash equivalents						
Beginning of period	247	557	804	438	1,628	2,066
End of period	$330	$1,561	$1,891	$41	$902	$943

3. Loans Receivable

(in millions of Canadian dollars)	**Mar 2017**	Dec 2016	Mar 2016
Performing:			
Past due	**76**	151	16
Current year and beyond	**53,098**	54,187	51,499
Performing gross loans receivable	**53,174**	54,338	51,515
Individually impaired loans (Note 3)	**928**	1,037	909
Gross loans receivable	**54,102**	55,375	52,424
Accrued interest and fees receivable	**255**	236	211
Deferred loan revenue and other credits	**(363)**	(361)	(365)
Total loans receivable	**$53,994**	$55,250	$52,270

The breakdown of our gross loans receivable by credit grade is as follows:

(in millions of Canadian dollars)		**Mar 2017**		Dec 2016		Mar 2016
	$	**% of total**	$	% of total	$	% of total
Investment grade	**26,344**	**49**	26,511	48	29,435	56
Non-investment grade	**26,830**	**49**	27,827	50	22,080	42
Individually impaired loans (Note 4)	**928**	**2**	1,037	2	909	2
Total gross loans receivable	**$54,102**	**100**	$55,375	100	$52,424	100

The following reflects the movement in gross loans receivable during the period:

(in millions of Canadian dollars)	**Mar 2017**	Mar 2016
Balance at January 1	**55,375**	53,326
Disbursements	**5,086**	5,368
Principal repayments	**(5,890)**	(3,102)
Principal recoveries from loan asset sales	**(113)**	(116)
Loans written off	**(19)**	(15)
Transferred to held-for-sale	**(5)**	-
Capitalized interest	**1**	7
Foreign exchange translation	**(333)**	(3,044)
Balance at March 31	**$54,102**	$52,424

The following table shows our outstanding financing commitments related to loans receivable by type:

(in millions of Canadian dollars)	**Mar 2017**	Dec 2016	Mar 2016
Signed loan commitments	**18,693**	19,147	18,809
Letters of offer	**3,179**	2,523	3,624
Unallocated confirmed lines of credit	**154**	181	127
Total financing commitments	**$22,026**	$21,851	$22,560

4. Individually Impaired Loans

(in millions of Canadian dollars)	**Mar 2017**	Dec 2016	Mar 2016
Gross loans receivable			
Sovereign	**8**	8	106
Commercial	**920**	1,029	803
	928	1,037	909
Less: Deferred loan revenue and other credits	**17**	20	37
Individual allowance	**521**	516	536
Carrying amount of individually impaired loans	**$390**	$501	$336

The following reflects the movement in individually impaired gross loans receivable during the period:

(in millions of Canadian dollars)	**Mar 2017**	Mar 2016
Balance at January 1	**1,037**	943
Loans classified as impaired	**21**	59
Loans reinstated to performing*	**(92)**	-
Loans written off	**(14)**	(12)
Principal repayments	**(10)**	(31)
Transfer to assets held-for-sale	**(5)**	-
Foreign exchange translation	**(9)**	(50)
Balance at March 31	**$928**	$909

* *Loans made performing following the restructuring of credit agreements.*

5. Allowance for Losses on Loans, Loan Commitments and Loan Guarantees

The composition of the allowance for losses on loans, loan commitments and loan guarantees is as follows:

(in millions of Canadian dollars)	**Mar 2017**	Dec 2016	Mar 2016
Base allowance			
Investment grade exposure	**79**	80	127
Non-investment grade exposure	**1,155**	1,089	981
Total base allowance	**1,234**	1,169	1,108
Counterparty concentration overlay			
Investment grade exposure	**5**	6	7
Non-investment grade exposure	**7**	21	12
Total counterparty concentration overlay	**12**	27	19
Extractive market overlay	**-**	-	222
Total collective allowance*	**1,246**	1,196	1,349
Allowance for individually impaired loans, loan commitments and loan guarantees	**548**	539	550
Total allowance for losses on loans, loan commitments and loan guarantees	**$1,794**	$1,735	$1,899

* *Includes allowance on other receivables of $5 million (December 2016 – $5 million and March 2016 –$7 million).*

The allowance for losses on loans, loan commitments and loan guarantees is as follows:

(in millions of Canadian dollars)	**Mar 2017**	Dec 2016	Mar 2016
Allowance for losses on loans	**1,604**	1,552	1,695
Allowance for losses on loan commitments	**82**	78	107
Allowance for losses on loan guarantees*	**108**	105	97
Total	**$1,794**	$1,735	$1,899

* *Included in the liability for loan guarantees.*

For the three months ended March 2017, changes to the allowance for losses on loans, loan commitments and loan guarantees were as follows:

(in millions of Canadian dollars)	**Collective**	**Individual**	**Mar 2017 Total**	Collective	Individual	Mar 2016 Total
Balance at beginning of year	**1,196**	**539**	**1,735**	1,366	565	1,931
Provision for credit losses on loans, loan commitments and loan guarantees	**60**	**23**	**83**	64	23	87
Write-offs	**-**	**(14)**	**(14)**	-	(10)	(10)
Foreign exchange translation	**(10)**	**-**	**(10)**	(81)	(28)	(109)
Total	**$1,246**	**$548**	**$1,794**	$1,349	$550	$1,899

6. Recoverable Insurance Claims

(in millions of Canadian dollars)	**Mar 2017**	Mar 2016
Balance at January 1	**63**	54
Claims paid	**19**	25
Claims recovered	**(4)**	(4)
Change in recoverable portion of cumulative claims paid	**(22)**	(19)
Foreign exchange translation	**-**	(2)
Balance at March 31	**$56**	$54

7. Derivative Instruments

We use a variety of derivative instruments to manage costs, returns and levels of financial risk associated with our funding, investment and risk management activities. Refer to page 110 of the 2016 Annual Report for a description of derivative instruments that we currently use and for information on how we manage credit, interest and foreign exchange risks arising from the use of derivatives.

The following table provides the fair values for each category of derivative financial instrument:

(in millions of Canadian dollars)			**Mar 2017**			Dec 2016			Mar 2016
	Positive	**Negative**	**Total**	Positive	Negative	Total	Positive	Negative	Total
Cross currency interest rate swaps	**137**	**2,150**	**(2,013)**	125	2,599	(2,474)	176	2,185	(2,009)
Interest rate swaps	**106**	**200**	**(94)**	113	190	(77)	165	13	152
Foreign exchange swaps	**12**	**88**	**(76)**	86	27	59	34	156	(122)
Foreign exchange forwards	**1**	**-**	**1**	-	3	(3)	-	-	-
Total derivative instruments	**256**	**2,438**	**(2,182)**	324	2,819	(2,495)	375	2,354	(1,979)
Impact of netting agreements	**(89)**	**(89)**	**-**	(120)	(120)	-	(219)	(219)	-
Total	**$167**	**$2,349**	**$(2,182)**	$204	$2,699	$(2,495)	$156	$2,135	$(1,979)
Applicable collateral			**(21)**			(22)			(21)
Net amount			**$(2,203)**			$(2,517)			$(2,000)

8. Premium and Claims Liabilities

The premium and claims liabilities by product group were as follows:

(in millions of Canadian dollars)			**Mar 2017**			Dec 2016			Mar 2016
	Insurance	**Reinsurance**	**Net liability**	Insurance	Reinsurance	Net liability	Insurance	Reinsurance	Net liability
Credit insurance*	**247**	**(13)**	**234**	248	(13)	235	203	(9)	194
Contract insurance and bonding	**29**	**(2)**	**27**	34	(4)	30	76	(2)	74
Political risk insurance	**357**	**(88)**	**269**	374	(99)	275	347	(95)	252
Total	**$633**	**$(103)**	**$530**	$656	$(116)	$540	$626	$(106)	$520

* *Includes financial institutions insurance.*

The premium and claims liabilities are comprised of the following components:

(in millions of Canadian dollars)	**Mar 2017**	Dec 2016	Mar 2016
Deferred insurance premiums	**144**	157	106
Allowance for claims on insurance	**489**	499	520
Total premium and claims liabilities	**633**	656	626
Reinsurers' share of allowance for claims on insurance	**(71)**	(90)	(85)
Prepaid reinsurance	**(32)**	(26)	(21)
Reinsurers' share of premium and claims liabilities	**(103)**	(116)	(106)
Net premium and claims liabilities	**$530**	$540	$520

9. Contingent Liabilities

As explained on page 113 of the 2016 Annual Report, we are subject to a limit imposed by the *Export Development Act* on our contingent liability arrangements. The limit is currently $45.0 billion. Our position against this limit is provided below:

(in millions of Canadian dollars)	**Mar 2017**	Dec 2016	Mar 2016
Insurance in force:			
Credit insurance	**9,282**	9,480	9,260
Financial institutions insurance	**3,667**	3,900	3,863
Contract insurance and bonding	**8,126**	8,171	7,746
Political risk insurance	**1,287**	1,392	1,324
Reinsurance ceded*	**(250)**	(250)	(250)
Insurance in force	**22,112**	22,693	21,943
Loan guarantees	**2,532**	2,514	2,272
Total	**$24,644**	$25,207	$24,215

* *Represents treaty reinsurance agreements covering most bonding obligors and the short-term export credit insurance product group, including most foreign bank exposures.*

10. Equity

EDC's authorized share capital is $3.0 billion consisting of 30 million shares with a par value of $100 each. The number of shares issued and fully paid is 13.3 million (2016 – 13.3 million). In the first quarter of 2017, a dividend of $786 million was paid to the Government of Canada (2016 – $500 million declared in the first quarter and paid in the second quarter).

11. Fair Value of Financial Instruments

Fair value represents our estimation of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For a full description of our controls, policies and valuation techniques surrounding fair value of financial instruments refer to Note 27 on page 124 of the 2016 Annual Report.

As with any estimate, uncertainty is inherent due to the unpredictability of future events. In the case of estimating the fair value of our financial instruments, this uncertainty is magnified due to the large number of assumptions used and the wide range of acceptable valuation techniques. Estimates of fair values are based on market conditions at a certain point in time, and may not be reflective of future market conditions. Therefore, the estimates of the fair value of financial instruments outlined as follows do not necessarily reflect the actual values that may occur should the instruments be exchanged in the market.

(in millions of Canadian dollars)		**Mar 2017**		Dec 2016
	Carrying value	**Fair value**	Carrying value	Fair value
Assets				
Performing fixed rate loans*	**12,259**	**12,477**	12,088	12,190
Performing floating rate loans*	**39,746**	**40,820**	41,114	41,679
Total performing loans receivable	**52,005**	**53,297**	53,202	53,869
Impaired loans*	**390**	**390**	501	501
Loans receivable and accrued interest and fees	**52,395**	**53,687**	53,703	54,370
Marketable securities	**6,937**	**6,937**	7,059	7,059
Derivative instruments	**256**	**256**	324	324
Investments at fair value through profit or loss	**1,048**	**1,048**	1,005	1,005
Recoverable insurance claims	**56**	**56**	63	63
Other assets	**791**	**791**	156	154
Liabilities				
Accounts payable and other credits	**86**	**90**	142	145
Loans payable	**49,226**	**49,230**	49,101	49,019
Derivative instruments	**2,438**	**2,438**	2,819	2,819
Loan guarantees	**171**	**130**	167	123

* *Balances are net of loan allowance.*

Unobservable Inputs – Investments at Fair Value Through Profit or Loss

In the process of assessing the fair value for certain investment instruments, estimates determined in a manner consistent with industry practice are employed in the models which cannot be directly observed in the market. EDC's unobservable estimates are outlined in the following table:

(in millions of Canadian dollars)

Valuation technique	**Unobservable input**	**Range (average)**	**Fair value at Mar 2017(1)**
Multiples	Multiple (Sales or EBITDA(2))	0.9 – 9.7 (6.8)	67
	Liquidity discount	25% – 25% (25%)	5
	Discount rate	15% – 40% (30%)	3
Discounted cash flows	Discount rate	0% – 1% (1%)	1

(1) *The valuation of an investment may use multiple unobservable inputs and therefore its fair value can be included multiple times in the fair value amounts.*
(2) *Earnings before interest, taxes, depreciation and amortization.*

Fair Value Hierarchy

The following table presents the fair value hierarchy of our financial instruments based on whether the inputs to those techniques are observable or unobservable.

- *Level 1* - fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- *Level 2* - fair values are determined using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- *Level 3* - fair values are determined using inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

(in millions of Canadian dollars)				**Mar 2017**				Dec 2016
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Assets								
Performing fixed rate loans	-	**11,960**	**517**	**12,477**	-	11,720	470	12,190
Performing floating rate loans	-	**40,458**	**362**	**40,820**	-	41,233	446	41,679
Total performing loans receivable	-	**52,418**	**879**	**53,297**	-	52,953	916	53,869
Impaired loans	-	**390**	-	**390**	-	501	-	501
Loans receivable and accrued interest and fees	-	**52,808**	**879**	**53,687**	-	53,454	916	54,370
Marketable securities	**3,733**	**3,204**	-	**6,937**	3,734	3,325	-	7,059
Derivative instruments	-	**229**	**27**	**256**	-	297	27	324
Investments at fair value through profit or loss	**1**	-	**1,047**	**1,048**	-	-	1,005	1,005
Recoverable insurance claims	-	-	**56**	**56**	-	-	63	63
Other assets	**735**	**56**	-	**791**	89	65	-	154
Liabilities								
Accounts payable and other credits	**46**	**44**	-	**90**	99	46	-	145
Loans payable	-	**49,134**	**96**	**49,230**	-	48,923	96	49,019
Derivative instruments	-	**2,438**	-	**2,438**	-	2,819	-	2,819
Loan guarantees	-	**130**	-	**130**	-	123	-	123

The following table summarizes the reconciliation of Level 3 fair values between the beginning of the year and the end of the first quarter of 2017 for the financial instruments carried at fair value:

(in millions of Canadian dollars)					**Mar 2017**
	Recoverable insurance claims	**Investments at fair value through profit or loss**	**Loans payable designated at fair value through profit or loss**	**Derivative instruments**	**Total**
Balance at beginning of year	**63**	**1,005**	**(96)**	**27**	**999**
Decrease in recoverable insurance claims	**(7)**	-	-	-	**(7)**
Change in accrued interest	-	-	**(1)**	**1**	-
Unrealized gains (losses) included in other (income) expenses	-	**(5)**	**(1)**	**(1)**	**(7)**
Purchases of assets/issuances of liabilities	-	**74**	-	-	**74**
Matured assets/liabilities	-	-	**1**	-	**1**
Return of capital	-	**(21)**	-	-	**(21)**
Foreign exchange translation	-	**(6)**	**1**	-	**(5)**
Balance at end of period	**$56**	**$1,047**	**$(96)**	**$27**	**$1,034**
Total gains (losses) for the first three months of 2017 included in comprehensive income for instruments held at the end of the quarter	**$(7)**	**$1**	**$-**	**$(3)**	**$(9)**

Changes in valuation methods may result in transfers into or out of Levels 1, 2 and 3. In the first three months of 2017, there were no transfers between levels.

The fair value of Level 3 financial instruments is in whole or in part based on unobservable inputs. In preparing financial statements, appropriate levels for these unobservable input parameters are chosen so that they are consistent with prevailing market evidence or management judgment. For the quarter ended March 31, 2017, a sensitivity analysis was performed using possible alternative assumptions to recalculate the fair value of our Level 3 financial instruments.

In order to perform our sensitivity analysis on our Level 3 loans payable and derivative assets, we adjusted the yield curve and volatility assumptions used to value them. The results of our analysis on our Level 3 loans payable ranged from an unfavourable change of $0.9 million to a favourable change of $2.6 million. On our Level 3 derivative assets the impact ranged from an unfavourable change of $0.6 million to a favourable change of $0.1 million.

In order to perform our sensitivity analysis for our Level 3 investments, we adjusted the unobservable inputs. The unobservable inputs used to value our Level 3 investments include one or more of the following: multiple of sales, liquidity discount, multiple of EBITDA and discount rate. When multiple unobservable inputs are shocked, no netting is considered, resulting in the highest favourable or unfavourable change. The results of our analysis on our Level 3 investments ranged from an unfavourable change of $45 million to a favourable change of $47 million.

12. Financial Instrument Risks

The principal risks that we are exposed to as a result of holding financial instruments are credit, market and liquidity risk. For a full description of our objectives, policies and processes for managing financial instrument risk refer to management's discussion and analysis on pages 71 to 75 and notes related to our derivative instruments and debt instruments on pages 110 to 111 of the 2016 Annual Report.

Credit Risk

Credit risk is the risk of loss incurred if a counterparty fails to meet its financial commitments. We are exposed to credit risk on financial instruments under both our loans program and our treasury activities.

Concentration of Credit Risk

The following table provides a breakdown, by the country in which the risk resides, of the maximum exposure to credit risk of financial instruments. The exposure includes gross loans receivable, loan guarantees, investments at fair value through profit or loss, marketable securities, derivative assets and cash. The concentration of credit risk exposure provided below also includes the impact of unfunded loan participations and loan default insurance, which we use to mitigate credit risk within the loan portfolio.

(in millions of Canadian dollars)	**Mar 2017 Exposure**		Dec 2016 Exposure		Mar 2016 Exposure	
Country	**$**	**%**	$	%	$	%
United States	**16,086**	**25**	17,220	26	17,416	28
Canada	**9,187**	**14**	9,883	15	8,239	13
United Kingdom	**4,353**	**7**	4,054	6	3,818	6
Australia	**3,618**	**6**	3,383	5	3,299	5
Brazil	**3,263**	**5**	3,293	5	3,391	6
India	**2,447**	**4**	2,543	4	2,006	3
Saudi Arabia	**2,251**	**3**	2,290	3	1,829	3
Mexico	**2,023**	**3**	2,083	3	2,486	4
Chile	**1,957**	**3**	1,990	3	2,070	3
China	**1,953**	**3**	1,784	3	1,387	2
Other	**17,878**	**27**	18,084	27	16,831	27
Total	**$65,016**	**100**	$66,607	100	$62,772	100

The concentration of credit risk by industry sector for our financial instruments is as follows:

(in millions of Canadian dollars)	**Mar 2017 Exposure**		Dec 2016 Exposure		Mar 2016 Exposure	
Industry	$	%	$	%	$	%
Commercial:						
Aerospace	**12,961**	**20**	13,089	20	12,933	21
Oil and gas	**8,788**	**14**	8,919	13	6,315	10
Financial institutions	**8,538**	**13**	9,631	15	6,832	11
Mining	**7,402**	**11**	7,786	12	10,165	16
Surface transportation	**6,087**	**9**	5,860	9	5,943	9
Information and communication technology	**5,719**	**9**	6,132	9	5,635	9
Infrastructure and environment	**5,238**	**8**	4,676	7	4,575	7
Other	**3,433**	**5**	3,574	5	3,086	5
Total commercial	**58,166**	**89**	59,667	90	55,484	88
Sovereign	**6,850**	**11**	6,940	10	7,288	12
Total	**$65,016**	**100**	$66,607	100	$62,772	100

13. Loan Revenue

(in millions of Canadian dollars)	Three months ended **Mar 2017**	Dec 2016	Mar 2016
Loan interest			
Floating rate	**310**	309	256
Fixed rate	**111**	106	106
Loan fee revenue	**49**	46	40
Impaired revenue	**5**	5	4
Other	**-**	1	2
Total loan revenue	**$475**	$467	$408

14. Interest Expense

(in millions of Canadian dollars)	Three months ended **Mar 2017**	Dec 2016	Mar 2016
Loans payable and related derivatives			
Short-term payables	**28**	29	27
Long-term payables – floating	**85**	77	49
Long-term payables – fixed*	**36**	30	18
Total interest expense on loans payable and related derivatives	**149**	136	94
Interest expense (income) on swaps related to capital	**3**	2	(4)
Other	**-**	1	-
Total interest expense	**$152**	$139	$90

** Includes interest expense for debt classified at amortized cost of $27 million (December 2016 – $30 million and March 2016 – $21 million).*

Our interest expense includes not only the cost of the loans payable issued by EDC and the related derivatives, but also the impact of the currency swaps used to reduce the foreign currency risk of our capital. These currency swaps are set up with the objective to offset U.S. dollar assets and liabilities. As a result, they include a Canadian dollar receivable component and a U.S. dollar payable component, each carrying a floating interest rate.

15. Net Insurance Premiums and Guarantee Fees

The following tables present our net insurance premiums and guarantee fee revenue for our insurance product groups:

(in millions of Canadian dollars)	Three months ended		**Mar 2017**			Dec 2016			Mar 2016
	Premiums earned	**Reinsurance ceded**	**Net insurance premiums**	Premiums earned	Reinsurance ceded	Net insurance premiums	Premiums earned	Reinsurance ceded	Net insurance premiums
Credit insurance	**27**	**(2)**	**25**	29	(3)	26	26	(1)	25
Financial institutions insurance	**5**	**-**	**5**	5	-	5	5	-	5
Contract insurance and bonding	**22**	**(5)**	**17**	19	(4)	15	17	(2)	15
Political risk insurance	**7**	**(4)**	**3**	5	(4)	1	9	(6)	3
Total	**$61**	**$(11)**	**$50**	$58	$(11)	$47	$57	$(9)	$48

16. Provision for (Reversal of) Credit Losses

(in millions of Canadian dollars)	Three months ended **Mar 2017**	 Dec 2016	 Mar 2016
Credit migration	**84**	(69)	(2)
Changes in portfolio composition[(1)]	**13**	(29)	98
Increased concentration threshold	**(14)**	-	(9)
Updated probability of default and loss given default models[(2)]	**-**	(137)	-
Provision for (reversal of) credit losses	**$83**	$(235)	$87

(1) *Represents provision requirement (release) as a result of repayments, performing loan sales, disbursements and new financing commitments. Also includes the impact of changes in collateral values for our secured loans as these impacts should be considered in conjunction with the impact of the repayments on these loans.*

(2) *Refer to Note 6 in the 2016 Annual Report.*

(in millions of Canadian dollars)	Three months ended **Mar 2017**	 Dec 2016	 Mar 2016
Provision for (reversal of) credit losses on loans	**76**	(245)	89
Provision for losses on loan commitments	**4**	7	1
Provision for (reversal of) losses on loan guarantees	**3**	3	(3)
Provision for (reversal of) credit losses	**$83**	$(235)	$87

17. Claims-Related Expenses (Recovery)

	Three months ended		
(in millions of Canadian dollars)	**Mar 2017**	Dec 2016	Mar 2016
Claims paid	**19**	36	25
Claims recovered	**(4)**	(4)	(4)
Claims recovered from reinsurers	**-**	(9)	-
Actuarial increase (decrease) in the net allowance for claims on insurance	**12**	(64)	4
(Increase) decrease in recoverable insurance claims	**7**	(6)	(2)
Claims handling expenses	**1**	-	1
Total claims-related expenses (recovery)	**$35**	$(47)	$24

18. Other (Income) Expenses

	Three months ended		
(in millions of Canadian dollars)	**Mar 2017**	Dec 2016	Mar 2016
Net realized and unrealized (gain) loss on loans payable designated at fair value through profit or loss	**41**	(263)	198
Net realized and unrealized (gain) loss on derivatives related to loans payable	**19**	244	(183)
Net realized and unrealized (gain) loss on marketable securities at fair value through profit or loss	**(7)**	92	(71)
Net realized and unrealized (gain) loss on investments at fair value through profit or loss	**1**	(17)	(25)
(Gain) loss on sale of aircraft	**-**	(2)	23
Foreign exchange translation (gain) loss	**7**	7	(1)
Other	**19**	39	2
Total other (income) expenses	**$80**	$100	$(57)

We have designated the majority of our loans payable at fair value through profit or loss in order to follow the same accounting treatment as their related derivatives. In general, these derivatives are entered into to manage interest and foreign exchange rate risks on the related loans payable. For the three months ended March 31, 2017, the net unrealized loss on our loans payable and derivatives totalled $60 million compared to a net unrealized gain of $19 million for the previous quarter. In accordance with IFRS, our debt is valued on the basis of our credit rating (AAA) while the related derivatives are valued based on the credit risk of the resulting exposure. During the three months ended March 31, 2017, the credit adjusted rates relevant to the valuation of derivatives had increases while the rates applicable to loans payable decreased, leading to losses in both our derivatives and loans payable.

Our marketable securities portfolio is highly sensitive to long-term U.S. Treasury rates. For the three months ended March 31, 2017, the net realized and unrealized gain on marketable securities was $7 million compared to a loss of $92 million for the previous quarter, which is a reflection of the slight decrease in long-term U.S. Treasury rates during the first quarter of 2017 compared to a sharp increase in rates during the previous quarter.

19. Administrative Expenses

(in millions of Canadian dollars)	Three months ended **Mar 2017**	 Dec 2016	 Mar 2016
Salaries and benefits	**56**	56	46
Pension, other retirement and post-employment benefits	**13**	13	12
Occupancy	**7**	7	7
Amortization and depreciation	**6**	6	6
Professional services	**6**	9	2
Marketing and communications	**3**	5	4
Travel	**2**	3	2
Other	**11**	15	7
Total administrative expenses	**$104**	$114	$86

Retirement benefit obligations included in pension, other retirement and post-employment benefits above are as follows:

(in millions of Canadian dollars)	Three months ended **Mar 2017**	 Dec 2016	 Mar 2016
Pension benefit expense	**9**	9	8
Other post-employment benefit and severance expense	**4**	4	4
Total	**$13**	$13	$12

20. Related Party Transactions

The Government of Canada is the sole shareholder of Export Development Canada. We enter into transactions with other government departments, agencies and Crown corporations and our Pension Plan in the normal course of business, under terms and conditions similar to those that apply to unrelated parties.

Mandate

EDC helps Canadian companies go, grow, and succeed in their international business. As a financial Crown corporation, EDC provides financing, insurance, bonding, trade knowledge, and matchmaking connections to help Canadian companies sell and invest abroad. EDC also provides financial solutions to buyers of Canadian goods and services around the world.