Adapting to the New Reality

Quarterly Financial Report June 30, 2013
Unaudited

Canada

EDC
Realize a World of Opportunity

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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 to Canadian exporters, investors and their international buyers. Each year more than 7,400 Canadian companies and their global customers in up to 200 markets worldwide use our knowledge and partnerships. 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 and premiums on our insurance products.

For the last four years the Government of Canada temporarily broadened EDC's mandate and scope of activity because of persisting issues in the accessibility of credit affecting a large number of Canadian businesses. In the first quarter of 2013, EDC's domestic powers were further extended to allow the Government time to introduce amendments to EDC's regulatory framework that will provide greater clarity and predictability on the circumstances under which EDC will be able to provide financing and insurance in the domestic market for Canadian exporters going forward. The extension is valid until March 2014 or until the adoption of the new regulations. Until then, EDC's temporary mandate enables us to provide domestic financing and insurance services in the trade space, in partnership with private sector financial institutions, credit insurance and surety companies, and with the Business Development Bank of Canada (BDC).

Economic Environment

The second quarter of 2013 saw a significant increase in financial market volatility; however, the prevailing pessimism began to lift from the global economy. Fears that the U.S. fiscal cliff and the cutbacks from sequestration would push the U.S. economy back on its heels proved unfounded, as the rebounding U.S. housing sector and a healthy jobs market continued to support increased spending by U.S. consumers. Overall GDP growth for the U.S. is tracking to come in at a healthy 2.3% this year, and business investment will pick up as the recovery solidifies.

A significant story in the second quarter of 2013 was how comments from Federal Reserve Chairman Ben Bernanke, that quantitative easing would eventually taper off and come to an end sometime in 2015, provoked such a fall in share prices and an across-the-board decrease in emerging market currencies. Markets often overreact, and this volatility will continue as the Federal Reserve struggles with slowly and gradually unwinding an unprecedented experiment in monetary policy.

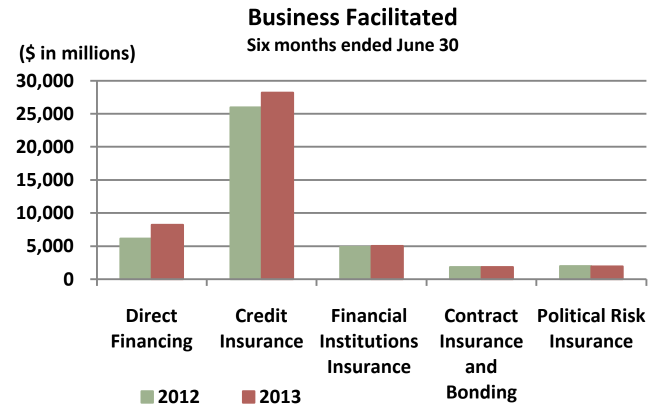
Meanwhile in Europe, the European Central Bank's promise to "do whatever it takes" has pushed sovereign bond yields down to manageable levels and the Bank continues to provide ample liquidity to the financial system. Europe remains mired in a tough recession with GDP forecast to contract by 0.4% this year, but the risk of an uncontrolled break-up of the Euro has subsided. European banks continue to deleverage, and so the tight credit environment will continue through 2014.

Countries such as Brazil and China began the year with disappointing GDP growth in the first quarter, but emerging markets should still achieve overall growth of around 5.1% this year.

For Canadian exporters, this means that strength in the U.S. and key emerging markets will more than make up for weakness in Europe. As such, Canadian exports of goods and services are expected to rise 7% in 2013, followed by an additional 5% next year. The Canadian dollar is forecast to average U.S. $0.97 this year, before declining to U.S. $0.96 cents in 2014, which is welcome news for exporters who struggled with the dollar at parity. As Canada's domestic economy cools due to weaker spending by highly indebted consumers amidst an overheated housing market, export growth will be crucial to sustaining a healthy Canadian economy in the years ahead.

Business Facilitated

We have seen an increase in business facilitated in both our financing and insurance programs for the first six months of 2013. We experienced a relatively high demand for financing, particularly in the extractive and transportation sectors. The increase over 2012 in our extractive sector was, in part, due to a shift in timing, as normally we anticipate business facilitated for this sector to occur in the second half of the year. In addition, 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 purposes such as expanding operations, purchasing equipment and inventory, increasing working capital as well as refinancing.



Business facilitated within our insurance portfolio increased by 7%, although a part of this increase is more related to the timing of insurance transactions for several large customers in our credit insurance program. The increase in credit insurance business facilitated can also be attributed to growth in Canadian merchandise exports.

SUMMARY OF FINANCIAL RESULTS

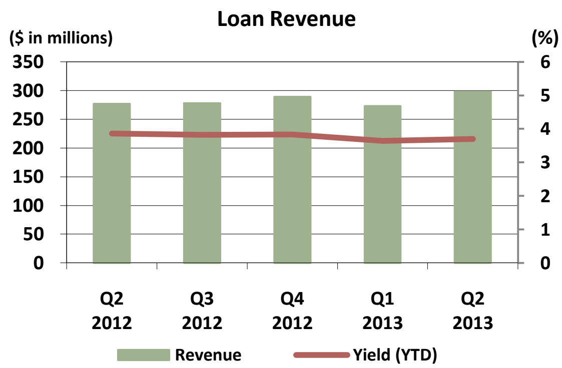
Financial Performance

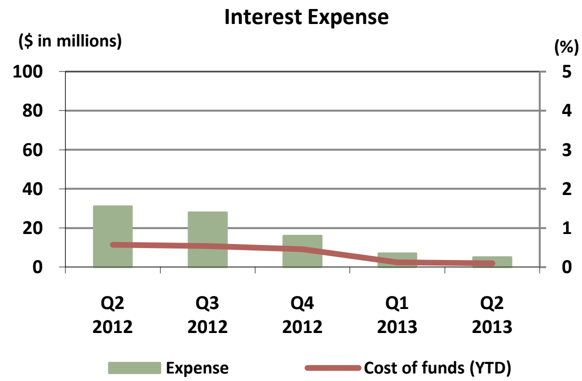
	For the three months ended			For the six months ended	
	Jun 2013	Mar 2013	Jun 2012 (restated)[2]	**Jun 2013**	Jun 2012 (restated)[2]
(in millions of Canadian dollars)					
Net financing and investment income	**311**	272	255	**583**	504
Net insurance premiums and guarantee fees[(1)]	**60**	56	60	**116**	121
	371	328	315	**699**	625
Other income (expenses)	**(59)**	(24)	22	**(83)**	(9)
Administrative expenses	**77**	75	78	**152**	153
Provision for (reversal of) credit losses	**(132)**	26	(68)	**(106)**	(240)
Claims-related expenses	**102**	12	71	**114**	82
Net income	**$265**	$191	$256	**$456**	$621

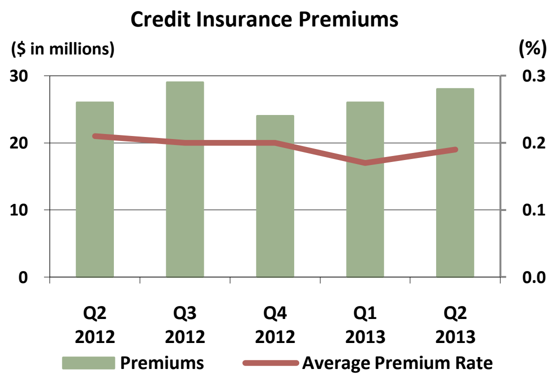
(1) *Includes loan guarantee fees*

(2) *The amounts for 2012 have been restated as a result of the adoption of new or revised accounting standards. Refer to Note 1 – Significant Accounting Policies in the accompanying financial statements for more details.*

Fluctuations in net income between reporting periods were largely caused by changes in provisioning requirements and claims-related expenses. These changes are discussed further on page 6. We continued to see volatility in the fair values of our financial instruments between periods due to market conditions; the impact of these fluctuations are included in other income (expenses).







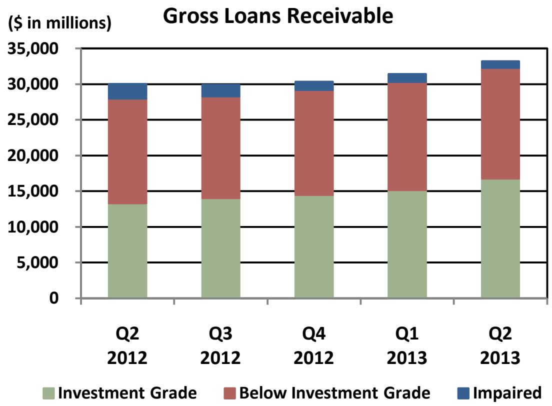
Financial Position

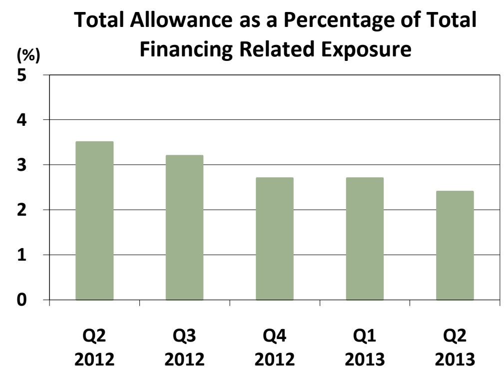
as at *(in millions of Canadian dollars)*	**Jun 2013**	Mar 2013	Dec 2012 (restated)*	Jun 2012 (restated)*
Total Assets	**39,105**	37,289	36,233	35,972
Total Liabilities	**31,198**	28,223	27,358	27,854
Equity	**7,907**	9,066	8,875	8,118
Gross Loans Receivable	**33,211**	31,438	30,336	30,026
Total Allowances	**1,755**	1,796	1,743	2,361

* *The amounts for 2012 have been restated as a result of the adoption of new or revised accounting standards. Refer to Note 1 – Significant Accounting Policies in the accompanying financial statements for more details.*

Impact of Foreign Exchange Translation on Financial Results

At the end of the second quarter, the Canadian dollar had weakened relative to the U.S. dollar, resulting in a rate of U.S. $0.95 on June 30, 2013 compared to U.S. $0.98 at March 31, 2013 and June 30, 2012. The weakened Canadian dollar resulted in an increase in our assets and liabilities which are primarily denominated in U.S. dollars and translated into Canadian dollars at rates prevailing at the statement of financial position date. Business facilitated and the components of comprehensive income are translated into Canadian dollars at average exchange rates. The average rate at June 30, 2013 was U.S. $0.98 compared to U.S. $0.99 at March 31, 2013 and June 30, 2012.





Risk Management

Our business activities expose us to a wide variety of risks including credit, market, operational, organizational, and business risks. Our ability to manage these risks, a key competency within the organization, is supported by a strong risk culture and an effective risk management approach. 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. Refer to Note 12 of the accompanying financial statements for details on financial instruments risks.

During the second quarter, one of our largest impaired obligors, Pinnacle Airlines, Inc emerged from bankruptcy protection as a wholly owned subsidiary of Delta Air Lines, Inc, reducing EDC's impaired loan portfolio significantly.

SECOND QUARTER HIGHLIGHTS

Net income was $265 million for the second quarter of 2013 compared to $191 million reported in the previous quarter; an increase of $74 million. Lower provision requirements and an increase in our net financing and investment income were the primary contributors to the increase in net income. The increase was tempered by higher claims-related expenses as well as fluctuations in the fair value of our financial instruments.

	Three months ended	
(in millions of Canadian dollars)	**Jun 2013**	Mar 2013
Income before provisions and claims-related expenses	**235**	229
Provision for (reversal of) credit losses	**(132)**	26
Claims-related expenses	**102**	12
Net income	**$265**	$191

Provisions for credit losses decreased by $158 million in the second quarter when compared to the previous quarter. In the first quarter, a decline in the value of the collateral associated with our secured aerospace portfolio resulted in a significant increase to provision whereas in the second quarter the impact was negligible. In addition, in the second quarter, there was a release of provision of $87 million as a result of positive credit migration. Of this amount, $60 million represents a change in estimate and is related to the implementation of a new internal credit risk rating tool. Refer to Note 4 for further details.

Claims-related expenses were $102 million for the second quarter, compared to $12 million for the previous quarter. There was an actuarial increase of $54 million in the net allowance for claims on insurance mainly the result of updated assumptions used in the calculation of the allowance. We also experienced a $23 million reduction in our recoverable insurance claims due to updates in assumptions used to estimate the recoverable amount.

FINANCIAL RESULTS – YEAR TO DATE

Prior Year Comparison

We finished the first six months of 2013 with net income of $456 million, $165 million lower than the net income reported for the same period in 2012. The decline is primarily due to a lower reversal of provisions for credit losses in our loans portfolio and fluctuations in the fair value of our financial instruments. In addition, we experienced variances in other items which are also explained below.

We had a **reversal of provision for credit losses** of $106 million for the first six months of 2013, compared to a provision reversal of $240 million for the same period in 2012. Various factors contributed to the lower reversal of provision for credit losses. In 2013, there was positive credit migration of $86 million of which $60 million represents a change in estimate and is related to the implementation of a new internal credit risk rating tool; whereas in 2012 the portfolio experienced negative credit migration of $48 million. In addition, updates to independent variables used in the provisioning methodology had different impacts in each year. In 2012, updated probability of default and loss given default rates resulted in a reversal of provisions which were not a factor in 2013. Updates to collateral values related to our secured aerospace portfolio resulted in a requirement for provisions in each year; however, in 2013, the impact was more significant. Refer to Note 16 for further details.

(in millions of Canadian dollars)	**Jun 2013**	Jun 2012
Changes in portfolio composition	**(105)**	(117)
Updates to independent variables:		
Collateral values	**94**	48
Probability of default rates and loss given default assumption	**-**	(219)
Credit migration	**(86)**	48
Other	**(9)**	-
Reversal of provision credit losses	**$(106)**	$(240)

Other expenses were $83 million for the first six months of 2013 compared to $9 million for the same period in 2012. The variance is largely due to the volatility associated with our financial instruments carried at fair value. Refer to Note 18 for further details.

Interest expense was $12 million for the first six months of 2013, compared to $64 million for the same period in 2012 and is primarily due to rates resetting to lower levels since the latter half of 2012. Also contributing to this variance is a $23 million reduction in expense due to the maturity of a higher cost fixed rate bond in the last quarter of 2012.

Claims-related expenses increased by $32 million over the prior year period due the reduction in estimated recoverable claims mentioned on the previous page, in addition to the payment of large claims in the contract insurance and bonding program within the infrastructure and environment sector.

Loan revenue was $571 million for the first half of 2013, $22 million higher than the same period in 2012. This increase is mainly from higher loan fee revenue due to both larger portfolio exposure as well as other events, such as loan prepayments, that allow for the immediate recognition of deferred revenue.

Operating lease revenue and related expenses. Operating lease revenue was $22 million, $14 million higher than the same period in 2012. At the end of the second quarter in 2013, EDC had 49 aircraft subject to operating leases, compared to 18 aircraft in 2012. Refer to Note 5 for further details. The increased leasing portfolio is due to aircraft that were returned to EDC as a result of loan foreclosures during late 2012 and were subsequently leased out. The increased number of aircraft in the portfolio also resulted in $9 million higher operating expenses, which represents the depreciation on the additional aircraft assets.

Corporate Plan Comparison

Financial Performance

	Six months ended		Year ended
(in millions of Canadian dollars)	**Jun 2013 Actual Results**	Jun 2013 Corporate Plan	Dec 2013 Corporate Plan
Net financing and investment income	**583**	504	1,032
Net insurance premiums and guarantee fees*	**116**	119	247
Other income (expenses)	**(83)**	(4)	(7)
Administrative expenses	**152**	163	330
Provision for (reversal of) credit losses	**(106)**	(5)	47
Claims-related expenses	**114**	30	60
Net income	**456**	431	835
Other comprehensive income	**16**	-	-
Comprehensive income	**$472**	$431	$835

Includes loan guarantee fees

Net income for the first half of 2013 was $25 million higher than anticipated in the Corporate Plan primarily due to changes in provisioning requirements for our loans portfolio and an increase in net financing and investment income. The increase was tempered by higher claims-related expenses as well as fluctuations in the fair value of our financial instruments.

The reversal of **provision for credit losses** was $106 million for the first six months of 2013 which represents a $101 million increase from the Corporate Plan projection for the same period. This increase in provision reversal was primarily due to the ongoing implementation of our new internal credit risk rating tool. Refer to Note 4 for details. At the time of preparing the Corporate Plan, it was not possible to estimate the impact of the implementation of this tool. Also, the Corporate Plan projected that net disbursements in the first half of the year would result in additional provisioning requirements. Instead, the impact of the provision release from loan repayments exceeded the additional provisions required as a result of disbursements and new commitments during this period.

Claims-related expenses for the first half of the year were $84 million higher than the Corporate Plan amount of $30 million. As previously mentioned there was an actuarial increase in the net allowance for claims on insurance and a $23 million reduction in recoverable insurance claims that were not contemplated at the time of preparing the Corporate Plan.

Financial Position

as at *(in millions of Canadian dollars)*	**Jun 2013 Actual Results**	Jun 2013 Corporate Plan	Dec 2013 Corporate Plan
Cash and marketable securities	**4,101**	4,339	4,339
Derivative instruments	**714**	1,497	1,497
Loans receivable	**33,017**	30,667	31,733
Allowance for losses on loans	**(1,141)**	(1,374)	(1,364)
Other financing and leasing assets	**1,256**	1,249	1,249
Other assets	**1,158**	488	481
Total Assets	**$39,105**	$36,866	$37,935
Loans payable	**27,147**	26,900	27,710
Dividend payable	**1,440**	-	-
Derivative instruments	**575**	181	181
Allowance for losses on loan commitments	**47**	65	63
Policy and claims liabilities	**656**	557	565
Other liabilities	**1,333**	925	774
Equity	**7,907**	8,238	8,642
Total Liabilities and Equity	**$39,105**	$36,866	$37,935

Loans receivable were $2.4 billion above Plan due to a weaker Canadian dollar and net loan disbursements that were $1.7 billion higher than projected in the Plan as a result of increased financing activity.

Net derivative instruments were $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.

Other assets include $683 million of trade date receivables and **other liabilities** include $632 million of trade date payables related to marketable securities purchased and sold, debt issued, and derivative transactions. Timing differences between the trade date and the settlement date of these financial instrument transactions are recognized in other assets and liabilities. These timing differences were not anticipated at the time the Plan was prepared.

NON-IFRS PERFORMANCE MEASURES

Claims Ratio – Credit Insurance Program

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

Reinsurance assumed and ceded reflect various partnerships we have with private insurers and reinsurers in offering and managing insurance capacity.

The higher claims ratio in 2013 is due to an increase in the net claims incurred. Updated assumptions used in the actuarial calculation of the policy liabilities resulted in the increase in net claims incurred.

	Six months ended	
(in thousands of Canadian dollars)	**Jun 2013**	Jun 2012
Direct premiums	**52,718**	54,354
Reinsurance assumed	**3,563**	2,481
Reinsurance ceded	**(3,573)**	(3,710)
Net written premium	**$52,708**	$53,125
Direct net claims incurred	**53,023**	10,535
Net claims incurred – reinsurance assumed	**1,148**	178
Net claims incurred	**$54,171**	$10,713
Claims ratio %	**102.78%**	20.17%

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 June 30, 2013 and for the periods presented in the condensed consolidated quarterly financial statements.

Pierre Gignac,
Acting President

Ken Kember,
Senior Vice-President and Chief Financial Officer

Ottawa, Canada
August 22, 2013

Export Development Canada

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in millions of Canadian dollars)

	as at			
	Jun 2013	Mar 2013	Dec 2012 (Restated - Note 1)	Jun 2012 (Restated - Note 1)
Assets				
Cash	**133**	159	80	154
Marketable securities:				
At fair value through profit or loss	**3,890**	4,136	4,082	4,914
At amortized cost	**78**	76	74	76
Derivative instruments	**714**	1,160	1,352	1,497
Loans receivable (Notes 2 and 3)	**33,017**	31,240	30,131	29,622
Allowance for losses on loans (Note 4)	**(1,141)**	(1,230)	(1,182)	(1,477)
Investments at fair value through profit or loss	**502**	456	429	401
Equipment available for lease (Note 5)	**509**	517	525	49
Net investment in aircraft under finance leases	**79**	79	80	87
Recoverable insurance claims (Note 6)	**179**	198	200	38
Reinsurers' share of policy and claims liabilities (Note 7)	**91**	87	90	129
Other assets	**789**	143	99	202
Property, plant and equipment	**61**	63	66	68
Intangible assets	**38**	38	38	39
Building under finance lease	**166**	167	169	173
Total Assets	**$39,105**	$37,289	$36,233	$35,972
Liabilities and Equity				
Accounts payable and other credits	**765**	177	113	181
Dividend payable (Note 9)	**1,440**	-	-	-
Loans payable:				
Designated at fair value through profit or loss	**26,069**	25,563	24,862	23,767
At amortized cost	**1,078**	1,050	1,018	2,069
Derivative instruments	**575**	197	120	181
Obligation under finance lease	**172**	173	173	175
Retirement benefit obligations	**246**	265	270	332
Allowance for losses on loan commitments (Note 4)	**47**	56	58	43
Policy and claims liabilities (Note 7)	**656**	587	583	920
Loan guarantees	**150**	155	161	186
	31,198	28,223	27,358	27,854
Financing commitments (Note 2) and contingent liabilities (Note 8)				
Equity				
Share capital (Note 9)	**1,333**	1,333	1,333	1,333
Retained earnings	**6,574**	7,733	7,542	6,785
	7,907	9,066	8,875	8,118
Total Liabilities and Equity	**$39,105**	$37,289	$36,233	$35,972

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 August 22, 2013

Herbert M. Clarke
Director

Pierre Gignac
Director

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

	For the three months ended			For the six months ended	
	Jun 2013	Mar 2013	Jun 2012 (Restated - Note 1)	**Jun 2013**	Jun 2012 (Restated - Note 1)
Financing and investment revenue:					
Loan (Note 13)	**298**	273	277	**571**	549
Finance lease	**2**	1	1	**3**	3
Operating lease	**13**	9	4	**22**	8
Marketable securities	**8**	8	10	**16**	19
Investments	**5**	1	1	**6**	3
Total financing and investment revenue	**326**	292	293	**618**	582
Interest expense (Note 14)	**5**	7	30	**12**	64
Leasing and financing related expenses	**10**	13	8	**23**	14
Net Financing and Investment Income	**311**	272	255	**583**	504
Loan Guarantee Fees	**10**	8	9	**18**	17
Insurance premiums and guarantee fees	**52**	52	53	**104**	108
Reinsurance assumed	**4**	2	3	**6**	6
Reinsurance ceded	**(6)**	(6)	(5)	**(12)**	(10)
Net Insurance Premiums and Guarantee Fees (Note 15)	**50**	48	51	**98**	104
Other Income (Expenses) (Note 18)	**(59)**	(24)	22	**(83)**	(9)
Administrative Expenses (Note 19)	**77**	75	78	**152**	153
Income before Provision and Claims-Related Expenses	**235**	229	259	**464**	463
Provision for (Reversal of) Credit Losses (Note 16)	**(132)**	26	(68)	**(106)**	(240)
Claims-Related Expenses (Note 17)	**102**	12	71	**114**	82
Net Income	**265**	191	256	**456**	621
Other comprehensive income:					
Actuarial gain on pension plans	**16**	-	-	16	-
Comprehensive Income	**$281**	$191	$256	**$472**	$621

All items presented in other comprehensive income will not be reclassified to net income in subsequent periods.

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

	For the three months ended			For the six months ended	
	Jun 2013	Mar 2013	Jun 2012 (Restated - Note 1)	**Jun 2013**	Jun 2012 (Restated - Note 1)
Share Capital (Note 9)	**1,333**	1,333	1,333	**1,333**	1,333
Retained Earnings					
Balance beginning of period	**7,733**	7,542	6,529	**7,542**	6,664
Comprehensive income	**281**	191	256	**472**	621
Dividends (Note 9)	**(1,440)**	-	-	**(1,440)**	(500)
Balance end of period	**6,574**	7,733	6,785	**6,574**	6,785
Total Equity at End of Period	**$7,907**	$9,066	$8,118	**$7,907**	$8,118

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

	For the three months ended			For the six months ended	
	Jun 2013	Mar 2013	Jun 2012 (Restated - Note 1)	**Jun 2013**	Jun 2012 (Restated - Note 1)
Cash Flows from (used in) Operating Activities					
Net income	**265**	191	256	**456**	621
Adjustments to determine net cash from (used in) operating activities					
Provision for (reversal of) credit losses	**(132)**	26	(68)	**(106)**	(240)
Actuarial change in the net allowance for claims on insurance	**54**	4	56	**58**	59
Depreciation and amortization	**16**	16	12	**32**	23
Changes in operating assets and liabilities					
Change in accrued interest and fees receivable	**(5)**	(8)	24	**(13)**	7
Change in fair value of marketable securities	**48**	22	(50)	**70**	(25)
Change in fair value of loans payable	**(117)**	(51)	17	**(168)**	9
Change in derivative instruments receivable	**192**	91	73	**283**	42
Change in derivative instruments payable	**(575)**	(209)	(108)	**(784)**	23
Other	**(49)**	13	91	**(36)**	(27)
Loan disbursements	**(3,518)**	(2,791)	(2,734)	**(6,309)**	(5,565)
Loan repayments	**2,706**	2,230	2,535	**4,936**	4,616
Net cash from (used in) operating activities	**(1,115)**	(466)	104	**(1,581)**	(457)
Cash Flows from (used in) Investing Activities					
Disbursements for investments	**(38)**	(34)	(31)	**(72)**	(58)
Receipts from investments	**7**	9	5	**16**	25
Finance lease repayments	**2**	3	3	**5**	5
Purchases of marketable securities at fair value through profit or loss	**(12,050)**	(9,260)	(10,909)	**(21,310)**	(19,762)
Sales/maturities of marketable securities at fair value through profit or loss	**12,367**	9,265	9,483	**21,632**	18,604
Net cash from (used in) investing activities	**288**	(17)	(1,449)	**271**	(1,186)
Cash Flows from (used in) Financing Activities					
Issue of long-term loans payable - designated at fair value through profit or loss	**1,353**	2,386	2,897	**3,739**	5,352
Repayment of long-term loans payable - designated at fair value through profit or loss	**(3,051)**	(2,147)	(1,163)	**(5,198)**	(3,163)
Issue of short-term loans payable - designated at fair value through profit or loss	**5,871**	5,052	9,182	**10,923**	16,278
Repayment of short-term loans payable - designated at fair value through profit or loss	**(3,859)**	(4,873)	(9,590)	**(8,732)**	(16,261)
Change in derivative instruments receivable	**256**	104	32	**360**	13
Change in derivative instruments payable	**228**	40	15	**268**	(12)
Dividend paid	**-**	-	-	**-**	(500)
Net cash from financing activities	**798**	562	1,373	**1,360**	1,707
Effect of exchange rate changes on cash	**3**	-	1	**3**	-
Net increase (decrease) in cash	**(26)**	79	29	**53**	64
Cash					
Beginning of period	**159**	80	125	**80**	90
End of period	**$133**	$159	$154	**$133**	$154
Operating Cash Flows from Interest					
Cash paid for interest on loans payable	**$27**	$22	$60	**$49**	$94
Cash received for interest on currency swaps related to capital	**$19**	$18	$15	**$37**	$31
Cash received for interest on loan assets and marketable securities	**$276**	$249	$296	**$525**	$555

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, 2012 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2012 and the accompanying notes as set out on pages 82-131 of our 2012 Annual Report.

Use of Judgements and Estimates

The preparation of financial statements requires the use of judgment and estimates. 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 significant estimates are used include the allowance for losses on loans, loan commitments and guarantees, equipment available for lease, policy and claims liabilities, recoverable insurance claims, retirement benefit obligations and financial instruments measured at fair value. Refer to page 86 of our 2012 Annual Report for details.

New and Amended Accounting Standards

A number of new standards, interpretations, amendments and improvements have been issued by the International Accounting Standards Board (IASB). The standards that are relevant to EDC are listed below. Except as indicated, the standards are effective for annual periods beginning on or after January 1, 2013.

New standards include:

- *IFRS 10 - Consolidated Financial Statements* - replaces the guidance on control and consolidation in *IAS 27 - Consolidated and Separate Financial Statements*, and *SIC-12 - Consolidation – Special Purpose Entities*. *IFRS 10* requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with *IAS 27*. EDC assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of its subsidiary and investees.

- *IFRS 11 - Joint Arrangements* - supersedes *IAS 31 - Interests in Joint Ventures*, and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in *IAS 28 - Investments in Associates and Joint Ventures (amended in 2011)*. The other amendments to *IAS 28* did not affect EDC. EDC has assessed its joint arrangements and concluded that the adoption of IFRS 11 resulted in changes in the accounting for its joint arrangements; however, the impact was not material.

- *IFRS 12 - Disclosure of Interests in Other Entities*, outlines the disclosure requirements for all forms of interests in other entities both on and off the balance sheet. EDC has assessed the disclosure requirements and has determined that the adoption of IFRS 12 did not require additional disclosure in its interim financial statements.

- *IFRS 13 - Fair Value Measurement* - provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. EDC adopted *IFRS 13* on January 1, 2013 on a prospective basis. The adoption of *IFRS 13* did not require any adjustments to the valuation techniques used by EDC to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

Amended standards include:

- *IAS 1 - Presentation of Financial Statements* - requires EDC to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. We have modified our Condensed Consolidated Statement of Comprehensive Income accordingly.

- *IAS 19* - *Employee Benefits* - This amendment, which was issued by the IASB in June 2011 was implemented effective January 1, 2013 and applied retrospectively. The amendment removes the option to use the corridor method to defer gains and losses, requires that the impact of re-measuring pension assets and liabilities be recorded in other comprehensive income and provides enhanced disclosure requirements for defined benefit plans. The transition adjustment upon adoption of the amended standard reduced opening retained earnings 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. In the second quarter of 2013, other comprehensive income increased by $16 million due to the re-measurement of the pension assets and liabilities.

- *IAS 27* - *Separate Financial Statements* – this standard has been renamed and amended to maintain the accounting guidance on issuing separate financial statements. This amendment did not have any impact on EDC.

- *IAS 28* - *Investments in Associates and Joint Ventures* – amended as a consequence of the new standard on joint arrangements. This amendment did not have any impact on EDC.

2. Loans Receivable

(in millions of Canadian dollars)	**Jun 2013**	Mar 2013	Dec 2012	Jun 2012
Performing:				
Past due	**3**	8	11	11
Current year and beyond	**32,269**	30,271	29,165	27,939
Performing gross loans receivable	**32,272**	30,279	29,176	27,950
Individually impaired loans (Note 3)	**939**	1,159	1,160	2,076
Gross loans receivable	**33,211**	31,438	30,336	30,026
Accrued interest and fees receivable	**165**	166	157	160
Deferred loan revenue and other credits	**(359)**	(364)	(362)	(564)
Total loans receivable	**$33,017**	$31,240	$30,131	$29,622

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

(in millions of Canadian dollars)	**Jun 2013**		Mar 2013		Dec 2012		Jun 2012	
	$	**% of total**	$	% of total	$	% of total	$	% of total
Investment grade	**16,743**	**50**	15,144	48	14,480	48	13,292	44
Below investment grade	**15,529**	**47**	15,135	48	14,696	48	14,658	49
Individually impaired loans (Note 3)	**939**	**3**	1,159	4	1,160	4	2,076	7
Total gross loans receivable	**$33,211**	**100**	$31,438	100	$30,336	100	$30,026	100

The following table shows our outstanding financing commitments by type:

(in millions of Canadian dollars)	**Jun 2013**	Mar 2013	Dec 2012	Jun 2012
Signed loan commitments	**14,147**	13,468	13,382	10,386
Letters of offer	**3,265**	3,654	3,909	3,602
Confirmed lines of credit	**107**	111	111	141
Total financing commitments	**$17,519**	$17,233	$17,402	$14,129

3. Individually Impaired Loans

(in millions of Canadian dollars)	**Jun 2013**	Mar 2013	Dec 2012	Jun 2012
Gross loans receivable				
Sovereign	**80**	79	78	248
Commercial	**859**	1,080	1,082	1,828
	939	1,159	1,160	2,076
Less: Deferred loan revenue and other credits	**19**	24	24	210
Individual allowance	**301**	302	298	525
Carrying amount of individually impaired loans	**$619**	$833	$838	$1,341

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

(in millions of Canadian dollars)	**Jun 2013**	Jun 2012
Balance at January 1	**1,160**	1,805
Loans classified as impaired	**27**	350
Disbursements on loan guarantees called	**5**	62
Loans reinstated to performing	**(242)**	-
Principal repayments	**(36)**	(52)
Loans written off	**(17)**	(48)
Principal recoveries from asset sales	**(5)**	(45)
Foreign exchange translation	**47**	4
Balance at June 30	**$939**	$2,076

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

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

(in millions of Canadian dollars)	**Jun 2013**	Mar 2013	Dec 2012	Jun 2012
Base allowance				
Investment grade exposure	**80**	72	70	62
Non-investment grade exposure	**806**	906	869	963
Total base allowance	**886**	978	939	1,025
Counterparty concentration				
Investment grade exposure	**3**	3	4	1
Non-investment grade exposure	**73**	89	93	64
Total counterparty concentration	**76**	92	97	65
Total collective allowance	**962**	1,070	1,036	1,090
Allowance for individually impaired loans, loan commitments and loan guarantees	**324**	320	314	560
Total allowance for losses on loans, loan commitments and loan guarantees	**$1,286**	$1,390	$1,350	$1,650

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

(in millions of Canadian dollars)	**Jun 2013**	Mar 2013	Dec 2012	Jun 2012
Allowance for losses on loans	**1,141**	1,230	1,182	1,477
Allowance for losses on loan commitments	**47**	56	58	43
Allowance for losses on loan guarantees*	**98**	104	110	130
Total	**$1,286**	$1,390	$1,350	$1,650

** Included in the liability for loan guarantees.*

During the period, changes to the allowance for losses on loans, loan commitments and guarantees were as follows:

(in millions of Canadian dollars)	**Collective**	**Individual**	**Jun 2013 Total**	Collective	Individual	Jun 2012 Total
Balance at beginning of year	**1,036**	**314**	**1,350**	1,418	509	1,927
Provision for (reversal of) credit losses on loans, loan commitments and guarantees	**(115)**	**9**	**(106)**	(330)	90	(240)
Write-offs	**-**	**(17)**	**(17)**	-	(39)	(39)
Recovery of amounts written-off in prior years	**-**	**1**	**1**	-	-	-
Foreign exchange translation	**41**	**17**	**58**	2	-	2
Total	**$962**	**$324**	**$1,286**	$1,090	$560	$1,650

In 2011, we initiated a multi-year project to update and standardize our credit risk rating methodology and processes. In 2012, as part of the initial implementation stage of this project, we replaced our probability of default rates with updated rates generated by a new credit risk rating tool that uses external historical experience to generate default tables. This change impacted the allowance and was recognized in the 2012 financial results.

While the probability of default rates were updated in 2012, this was based on each obligors' existing risk ratings at that time based on our prior risk-rating methodologies. As part of the final implementation stages, existing exposures within the scope of this project that require annual review as per our risk management policies are being re-evaluated using the new internal credit risk rating models developed throughout 2012. This migration will occur throughout the year and is expected to be complete by the end of 2013. The difference between using our new models and the former methodologies is a change in estimate and will be disclosed at each reporting date during 2013. The change in estimate to the end of the second quarter of 2013 is a $60 million release of provision. The impact on future periods has not been determined as it is impracticable to estimate.

5. Equipment Available for Lease

Equipment available for lease consists of aircraft that were returned to EDC because of default under the related obligor loan agreements.

The following table represents the breakdown of our equipment available for lease:

(in millions of Canadian dollars)	**Jun 2013**	Mar 2013	Dec 2012	Jun 2012
Cost				
Aircraft	**438**	438	438	79
Engines	**181**	181	181	60
Major overhaul cost	**16**	16	16	12
Total cost	**635**	635	635	151
Accumulated depreciation and impairment				
Aircraft	**(70)**	(64)	(59)	(54)
Engines	**(43)**	(42)	(40)	(39)
Major overhaul cost	**(13)**	(12)	(11)	(10)
Total accumulated depreciation and impairment	**(126)**	(118)	(110)	(103)
Carrying amount	**509**	517	525	48
Lease setup costs	-	-	-	1
Total equipment available for lease	**$509**	$517	$525	$49

The following table illustrates the carrying amount by aircraft type and summarizes the current leasing arrangements within the equipment available for lease portfolio:

(in millions of Canadian dollars)				**Jun 2013**				Jun 2012
	Number of aircraft in portfolio	**Carrying amount**	**Number of aircraft on operating lease**	**Current lease term range**	Number of aircraft in portfolio	Carrying amount	Number of aircraft on operating lease	Current lease term range
Aircraft type								
CRJ200 Regional Jets	**18**	**40**	**18**	**7 to 35 months**	19	49	18	14 to 47 months
CRJ900 Regional Jets	**8**	**92**	**8**	**92 to 95 months**	-	-	-	-
Dash 8 – Q400*	**28**	**377**	**23**	**85 to 95 months**	-	-	-	-
Total portfolio	**54**	**$509**	**49**		19	$49	18	

* *In addition to the 28 aircraft, there are two Dash8-Q400 spare engines available for lease.*

6. Recoverable Insurance Claims

(in millions of Canadian dollars)	**Jun 2013**	Jun 2012
Balance at January 1	**200**	44
Claims paid	**35**	29
Claims paid – reinsured policies	**3**	-
Claims recovered	**(6)**	(13)
Change in recoverable portion of cumulative claims paid	**(55)**	(21)
Foreign exchange translation	**2**	(1)
Balance at June 30	**$179**	$38

7. Policy and Claims Liabilities

The table below presents our policy and claims liabilities for our credit insurance (CI), contract insurance and bonding (CIB) and political risk insurance (PRI) programs.

(in millions of Canadian dollars)				**Jun 2013**				Mar 2013				Dec 2012				Jun 2012
	CI	**CIB**	**PRI**	**Total**	CI	CIB	PRI	Total	CI	CIB	PRI	Total	CI	CIB	PRI	Total
Insurance	**143**	**115**	**398**	**656**	111	104	372	587	114	96	373	583	137	98	685	920
Reinsurance	**(2)**	**(1)**	**(88)**	**(91)**	(8)	(1)	(78)	(87)	(8)	(2)	(80)	(90)	(9)	(2)	(118)	(129)
Net liability	**$141**	**$114**	**$310**	**$565**	$103	$103	$294	$500	$106	$94	$293	$493	$128	$96	$567	$791

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

(in millions of Canadian dollars)	**Jun 2013**	Mar 2013	Dec 2012	Jun 2012
Deferred insurance premiums	**96**	94	100	80
Allowance for claims on insurance	**560**	493	483	840
Total policy and claims liabilities	**$656**	$587	$583	$920

8. Contingent Liabilities

As explained on page 86 of the 2012 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)	**Jun 2013**	Mar 2013	Dec 2012	Jun 2012
Credit insurance	**8,352**	8,092	7,750	7,982
Financial institutions insurance	**4,559**	4,337	4,118	5,484
Contract insurance and bonding	**8,340**	8,203	8,161	8,543
Political risk insurance	**1,666**	1,615	1,503	1,664
Contingent liabilities – insurance program	**22,917**	22,247	21,532	23,673
Loan guarantees	**2,048**	2,132	2,104	2,513
Total	**$24,965**	$24,379	$23,636	$26,186

9. Share Capital

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 (2012 – 13.3 million). In the second quarter of 2013, we declared a dividend of $1.44 billion which was paid to the Government of Canada in the third quarter (2012 - $500 million).

10. Capital Management

EDC has a capital management process in place to ensure that we are appropriately capitalized and that our capital position is identified, measured, managed and regularly reported to the Board of Directors. We are not subject to externally imposed capital requirements.

Our primary objective with respect to capital management is to ensure that EDC has adequate capital to support the evolving needs of Canadian exporters and investors while remaining financially self-sustaining.

The following table represents the breakdown of EDC's supply of capital:

(in millions of Canadian dollars)	**Jun 2013**	Mar 2013	Dec 2012	Jun 2012
Allowance for losses on loans	**1,141**	1,230	1,182	1,477
Allowance for losses on loan commitments	**47**	56	58	43
Allowance for losses on loan guarantees	**98**	104	110	130
Allowance for claims on insurance	**560**	493	483	840
Reinsurers' share of policy and claims liabilities	**(91)**	(87)	(90)	(129)
Share capital	**1,333**	1,333	1,333	1,333
Retained earnings	**6,574**	7,733	7,542	6,785
Supply of capital	**$9,662**	$10,862	$10,618	$10,479

11. Fair Value of Financial Instruments

Fair value represents our estimation of the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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)		**Jun 2013**		Mar 2013
	Carrying value	**Fair value**	Carrying value	Fair value
Assets				
Performing fixed rate loans	**8,264**	**8,623**	7,702	8,251
Performing floating rate loans	**23,004**	**23,679**	21,492	22,122
Total performing loans receivable	**31,268**	**32,302**	29,194	30,373
Impaired loans	**619**	**619**	833	833
Loans receivable and accrued interest and fees	**31,887**	**32,921**	30,027	31,206
Marketable securities:				
At fair value through profit or loss	**3,890**	**3,890**	4,136	4,136
At amortized cost	**78**	**78**	76	76
Derivative instruments	**714**	**714**	1,160	1,160
Investments at fair value through profit or loss	**502**	**502**	456	456
Recoverable insurance claims	**179**	**179**	198	198
Other assets	**790**	**790**	143	144
Liabilities				
Accounts payable and other credits	**765**	**772**	177	185
Loans payable:				
Designated at fair value through profit or loss	**26,069**	**26,069**	25,563	25,563
At amortized cost	**1,078**	**1,107**	1,050	1,087
Derivative instruments	**575**	**575**	197	197
Loan guarantees	**150**	**155**	155	146

We have controls and policies in place to ensure that our valuations are appropriate and realistic. In general, the methodologies, models and assumptions used to measure the fair value of our financial assets and liabilities are determined by our Market Risk Management team, which is not involved in the initiation of the transactions. The Market Risk Management team reports to the VP Risk Management, who reports to the SVP and Chief Risk Officer. The models, valuation methodologies and market-based parameters and inputs that are used are subject to regular review and validation, including a comparison with values from outside agencies. In limited circumstances where the valuation of a financial instrument is not independent from the initiation of the transaction, the resulting valuation is subject to review by a valuation committee. The valuation committee meets periodically. Instruments are reviewed and placed on the fair value hierarchy by the valuation committee before being fully implemented.

The assumptions and valuation techniques that we use to estimate fair values are as follows:

Loans Receivable
In order to estimate the fair value of our performing loans receivable (including accrued interest receivable), we separate them into risk pools and calculate the net present value of principal and interest cash flows. The discount rates are obtained from observable yield curves for each risk pool and are specific to the credit risk and term to maturity associated with each principal and interest cash flow.

The fair value of impaired loans is considered to be equal to their carrying value. Once a loan has been assessed as impaired, the carrying value is reduced to reflect the present value of any estimated future cash flows discounted at the loan's original effective interest rate.

Marketable Securities
We estimate the fair value of marketable securities using observable market prices. If such prices are not available, we determine the fair value by discounting future cash flows using an appropriate yield curve.

Investments
Our approach to fair value measurement has been derived from valuation guidelines issued by the International Private Equity and Venture Capital ("IPEVC"). Depending on the type of investment, we estimate fair value using one of the following: market-based methodologies, such as the quoted share price or the price of recent investments; multiples of discounted earnings or cash flow approaches; or liquidation or asset-based methods. The valuations are established by investment managers, reviewed by management and approved by an independent valuation committee quarterly that is comprised of representatives from our Risk Management and Finance groups. The valuation methods are constantly validated and calibrated through discussions with co-investors and market participants, taking into account all known market events.

In the process of assessing the fair value for certain investments 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 table below:

(in millions of Canadian dollars)

Valuation technique	Unobservable input	Range (weighted average)	Fair value at Jun 2013
Liquidity discount	Discount rate	14% - 30% (23.4%)	31.5
EBITDA Multiple*	Multiple of EBITDA	8.30 – 11.10 (9.70)	6.5
Sales multiple	Multiple of sales	1.25 – 17.70 (3.08)	4.7
Discounted cash flows	Discount rate	18.0% (18.0%)	4.6

** Earnings before interest, taxes, depreciation and amortization*

Recoverable Insurance Claims
For the purpose of estimating their fair value, recoverable insurance claims are separated into groups of estimated time to recovery. Generally the time to recovery of insurance claims will be relatively short; for these, the fair value is considered to be equal to the expected future cash flows. For insurance claims where the recovery is expected to occur over a longer period, we calculate the net present value of the expected cash flows using a discount rate appropriate for the claim.

(in millions of Canadian dollars)

Valuation technique	Unobservable input	Range	Fair value at Jun 2013
Discounted cash flows	Probability of recovery	0% - 100%	142

Other Assets and Accounts Payable and Other Credits
The fair value of short-term other assets and accounts payable and other credits are assumed to equal their carrying value due to their short-term nature. For long-term other assets and accounts payable, we estimate fair value by discounting future cash flows using an appropriate yield curve.

Loans Payable
The fair value of our less complex loans payable is determined using the discounted cash flow method. Forward rates are used to value floating rate cash flows occurring in the future. Cash flows are discounted using the respective currency's yield curve. Inputs to the models are market observable and may include interest rate yield curves and foreign exchange rates.

For our more complex loans payable which may include optionality, we estimate fair value using valuation models when independent market prices are not available. Inputs to these models include option volatilities and correlations in addition to interest rate yield curves and foreign exchange rates. All models are reviewed on a three year rotational basis and are calibrated automatically each time a model is employed in valuing a deal. Changes in fair value are analyzed every month.

EDC employed an external consultant to validate the models used to construct and value its financial instruments. The consultant deemed the models used to be consistent with those models used by issuers who economically hedge the issuance.

EDC hedges its structured notes using interest rate and cross currency swaps that convert EDC's obligations into floating rate notes. The receive leg of the swap mirrors the payment structure of EDC's structured notes; thus, any slight inaccuracy in the derivation of expected future payments on EDC's structured notes or their valuation is negated by the opposite valuation and derivation of the expected future payments from the receive leg of the swap.

Derivative Instruments
Foreign exchange forwards and foreign exchange swaps are valued by discounting the notional amounts using the respective currency's yield curve and converting the amounts using the spot Canadian dollar exchange rate.

Interest rate and cross currency interest rate swaps are valued using a discounted cash flow method. Forward rates are used to determine floating rate cash flows occurring in the future. Cash flows are discounted using the respective currency's yield curve. Inputs to the models are market observable and may include interest rate yield curves and foreign exchange rates.

For more complex swaps associated with our loans payable, which may include optionality, including cross currency interest rate swaps, interest rate swaps and non-deliverable forwards, the fair value is determined using models which are developed from recognized valuation techniques, validated and managed in the same manner as our more complex loans payable as described above. Credit default swaps are valued with the additional input of market based par credit default swap spreads or by using quoted prices from dealers where appropriate.

The valuations determined using the methodologies described above are adjusted for the credit risk of the counterparty where appropriate.

Loan Guarantees
We estimate the fair value of loan guarantees as the difference between the possible payout discounted using the appropriate credit risk curve and EDC credit risk curve; net of the deferred guarantee fees.

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);
- *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)				**Jun 2013**				Mar 2013
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Assets								
Performing fixed rate loans	**-**	**8,623**	**-**	**8,623**	-	8,251	-	8,251
Performing floating rate loans	**-**	**23,679**	**-**	**23,679**	-	22,122	-	22,122
Total performing loans receivable	**-**	**32,302**	**-**	**32,302**	-	30,373	-	30,373
Impaired loans	**-**	**619**	**-**	**619**	-	833	-	833
Loans receivable and accrued interest and fees	**-**	**32,921**	**-**	**32,921**	-	31,206	-	31,206
Marketable securities:								
At fair value through profit or loss	**2,094**	**1,796**	**-**	**3,890**	2,149	1,987	-	4,136
At amortized cost	**78**	**-**	**-**	**78**	76	-	-	76
Derivative instruments	**-**	**671**	**43**	**714**	-	1,109	51	1,160
Investments at fair value through profit or loss	**-**	**-**	**502**	**502**	-	-	456	456
Recoverable insurance claims	**-**	**-**	**179**	**179**	-	-	198	198
Other assets	**739**	**51**	**-**	**790**	92	52	-	144
Liabilities								
Accounts payable and other credits	**716**	**56**	**-**	**772**	128	57	-	185
Loans payable:								
Designated at fair value through profit or loss	**-**	**25,827**	**242**	**26,069**	-	25,323	240	25,563
Designated at amortized cost	**-**	**1,107**	**-**	**1,107**	-	1,087	-	1,087
Derivative instruments	**-**	**575**	**-**	**575**	-	197	-	197
Loan guarantees	**-**	**155**	**-**	**155**	-	146	-	146

The following table summarizes the reconciliation of Level 3 fair values between 2012 and the end of the second quarter of 2013 for investments at fair value through profit or loss, loans payable designated at fair value through profit or loss and derivative instruments.

(in millions of Canadian dollars)					Jun 2013
	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	200	429	(320)	64	373
Decrease in recoverable insurance claims	(23)	-	-	-	(23)
Unrealized gains (losses) included in Other expenses	-	-	16	(17)	(1)
Purchases of assets/issuances of liabilities	-	72	-	-	72
Matured assets/liabilities	-	-	78	(8)	70
Return of capital	-	(16)	-	-	(16)
Foreign exchange translation	2	17	(16)	4	7
Balance at end of period	$179	$502	$(242)	$43	$482
Total gains (losses) for first six months of 2013 included in comprehensive income for instruments held at end of the quarter	$(21)	$1	$10	$(10)	$(20)

Changes in valuation methods may result in transfers into or out of levels 1, 2 and 3. In the first six months of 2013 there were no transfers between levels.

For the quarter ended June 30, 2013, a sensitivity analysis was performed using possible alternative assumptions to recalculate the fair value of our Level 3 financial instruments. 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 inputs parameters are chosen so that they are consistent with prevailing market evidence or management judgment.

In order to perform our sensitivity analysis, we adjusted the yield curve and volatility assumptions used to value our Level 3 loans payable and derivative assets. The results of our analysis on our Level 3 loans payable ranged from an unfavourable change of $18 million to a favourable change of $23 million. On our Level 3 derivative assets the impact ranged from an unfavourable change of $22 million to a favourable change of $16 million.

The effects of applying other possible alternative assumptions to our Level 3 Investments would range from a decrease of $3 million to an increase of $21 million of their fair value.

The unobservable input used in the fair value measurement of the recoverable insurance claims is the probability of recovery. In order to perform our sensitivity analysis, we adjusted the probability of recovery used to value our Level 3 recoverable insurance claims. The results of our analysis ranged from an unfavourable change of $9 million to a favourable change of $9 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.

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 lending program and our treasury activities.

The following table provides a breakdown, by the country in which the risk resides, of the maximum gross 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 and derivative assets.

(in millions of Canadian dollars)	**Jun 2013 Exposure**		Mar 2013 Exposure		Dec 2012 Exposure		Jun 2012 Exposure	
Country	**$**	**%**	$	%	$	%	$	%
United States	**11,876**	**29**	11,988	30	12,051	31	13,842	35
Canada	**6,662**	**16**	6,958	18	6,568	17	7,500	19
Brazil	**2,523**	**6**	2,486	6	2,317	6	1,557	4
Australia	**2,066**	**5**	1,649	4	1,370	4	1,035	3
Mexico	**1,955**	**5**	2,034	5	2,020	5	2,144	5
India	**1,603**	**4**	1,535	4	1,557	4	1,507	4
United Kingdom	**1,146**	**3**	1,075	3	1,179	3	1,190	3
Chile	**1,113**	**3**	1,068	3	1,136	3	934	2
Germany	**852**	**2**	599	2	615	2	441	1
United Arab Emirates	**752**	**2**	487	1	463	1	478	1
Other	**10,028**	**25**	9,678	24	9,181	24	8,953	23
Total	**$40,576**	**100**	$39,557	100	$38,457	100	$39,581	100

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

(in millions of Canadian dollars)	**Jun 2013 Exposure**		Mar 2013 Exposure		Dec 2012 Exposure		Jun 2012 Exposure	
Industry	**$**	**%**	$	%	$	%	$	%
Commercial:								
Aerospace	**10,310**	**26**	9,912	25	9,573	25	10,043	25
Extractive	**10,140**	**25**	9,237	23	8,767	24	7,008	18
Surface transportation	**4,475**	**11**	4,117	10	4,066	11	4,713	12
Infrastructure and environment	**3,198**	**8**	2,894	7	3,131	8	3,348	8
Information and communication technology	**2,973**	**7**	2,953	8	2,841	7	3,167	8
Financial institutions	**2,951**	**7**	3,385	9	3,183	8	4,179	11
Other	**2,142**	**5**	2,258	6	2,101	5	2,032	5
Total commercial	**36,189**	**89**	34,756	88	33,662	88	34,490	87
Sovereign	**4,387**	**11**	4,801	12	4,795	12	5,091	13
Total	**$40,576**	**100**	$39,557	100	$38,457	100	$39,581	100

Market Risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange risk, interest rate risk and other price risk. We are exposed to potential negative impacts on the value of financial instruments resulting from adverse movements in interest and foreign exchange rates. We have policies and procedures in place to ensure that interest rate and foreign exchange risks are identified, measured, managed and regularly reported to management and the Board of Directors.

Liquidity Risk
Liquidity risk is the risk that we would be unable to honour daily cash commitments or the risk that we would have to obtain funds rapidly, possibly at an excessively high premium during severe market conditions. We maintain liquidity through a variety of methods such as holding cash and marketable securities and having access to commercial paper markets.

Our objectives, policies and processes for managing financial instruments risk as well as the method we use to measure exposure to risk are disclosed within our 2012 annual report in the notes related to our derivative instruments and debt instruments, as well as in the text and tables displayed in green font in management's discussion and analysis on pages 66 to 70.

13. Loan Revenue

	Three months ended			Six months ended	
(in millions of Canadian dollars)	**Jun 2013**	Mar 2013	Jun 2012	**Jun 2013**	Jun 2012
Loan interest					
Floating rate	**139**	134	136	**273**	270
Fixed rate	**101**	95	97	**196**	195
Loan fee revenue	**43**	35	27	**78**	56
Impaired revenue	**12**	7	13	**19**	22
Other	**3**	2	4	**5**	6
Total loan revenue	**$298**	$273	$277	**$571**	$549

14. Interest Expense

	Three months ended			Six months ended	
(in millions of Canadian dollars)	**Jun 2013**	Mar 2013	Jun 2012	**Jun 2013**	Jun 2012
Loans payable designated at fair value through profit or loss and related derivatives					
Short-term payables	**5**	5	8	**10**	17
Long-term payables – floating	**18**	19	25	**37**	52
Long-term payables – fixed	**(8)**	(8)	(9)	**(16)**	(17)
Loans payable carried at amortized cost					
Long-term payables – fixed	**8**	8	20	**16**	40
Total interest expense on loans payable and related derivatives	**23**	24	44	**47**	92
Interest income on currency swaps related to capital	**(19)**	(18)	(16)	**(37)**	(31)
Other	**1**	1	2	**2**	3
Total interest expense	**$5**	$7	$30	**$12**	$64

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 which each carry a floating interest rate. The positive spread between the Canadian dollar interest rates applicable to the receivable component of these swaps and the U.S. dollar rates on their payable component remained steady in 2013, which led to stable interest revenue on these swaps since the beginning of the year.

15. Net Insurance Premiums and Guarantee Fees

The following tables present our net insurance premiums and guarantee fee revenue for our credit insurance (CI), financial institutions insurance (FII), contract insurance and bonding (CIB) and political risk insurance (PRI) programs.

(in millions of Canadian dollars)	Three months ended														
					Jun 2013					Mar 2013					Jun 2012
	CI	**FII**	**CIB**	**PRI**	**Total**	CI	FII	CIB	PRI	Total	CI	FII	CIB	PRI	Total
Direct premiums	**27**	**5**	**12**	**8**	**52**	27	6	11	8	52	26	7	13	7	53
Reinsurance assumed	**3**	**-**	**-**	**1**	**4**	1	-	1	-	2	1	-	1	1	3
Reinsurance ceded	**(2)**	**-**	**-**	**(4)**	**(6)**	(2)	-	(1)	(3)	(6)	(1)	-	(1)	(3)	(5)
Net insurance premiums and guarantee fees	**$28**	**$5**	**$12**	**$5**	**$50**	$26	$6	$11	$5	$48	$26	$7	$13	$5	$51

(in millions of Canadian dollars)	Six months ended									
					Jun 2013					Jun 2012
	CI	**FII**	**CIB**	**PRI**	**Total**	CI	FII	CIB	PRI	Total
Direct premiums	**54**	**11**	**23**	**16**	**104**	55	14	25	14	108
Reinsurance assumed	**4**	**-**	**1**	**1**	**6**	2	-	3	1	6
Reinsurance ceded	**(4)**	**-**	**(1)**	**(7)**	**(12)**	(3)	-	(2)	(5)	(10)
Net insurance premiums and guarantee fees	**$54**	**$11**	**$23**	**$10**	**$98**	$54	$14	$26	$10	$104

16. Provision for (Reversal of) Credit Losses

(in millions of Canadian dollars)	Three months ended Jun 2013	Three months ended Mar 2013	Three months ended Jun 2012	Six months ended Jun 2013	Six months ended Jun 2012
Updates to independent variables:					
Changes in collateral values	**4**	90	46	**94**	48
Increased concentration threshold	**-**	(8)	-	**(8)**	(4)
Updated probability of default rates	**-**	-	-	**-**	(156)
Update to loss given default assumption	**-**	-	(63)	**-**	(63)
Update to loss emergence period assumption	**-**	-	4	**-**	4
Changes in portfolio composition(1)	**(52)**	(53)	(79)	**(105)**	(117)
Credit migration(2)	**(87)**	1	24	**(86)**	48
Other	**3**	(4)	-	**(1)**	-
Provision for (reversal of) credit losses	**$(132)**	$26	$(68)	**$(106)**	$(240)

(1) Represents provision requirements (release) as a result of disbursements, new financing trade facilitated and repayments.
(2) Refer to Note 4. Included in this amount is $60 million due to the change in estimate.

(in millions of Canadian dollars)	Three months ended Jun 2013	Three months ended Mar 2013	Three months ended Jun 2012	Six months ended Jun 2013	Six months ended Jun 2012
Provision for (reversal of) losses on loans	**(114)**	35	9	**(79)**	(165)
Provision for (reversal of) losses on loan commitments	**(11)**	(2)	-	**(13)**	2
Provision for (reversal of) losses on loan guarantees	**(7)**	(7)	(77)	**(14)**	(77)
Provision for (reversal of) credit losses	**$(132)**	$26	$(68)	**$(106)**	$(240)

17. Claims-Related Expenses

(in millions of Canadian dollars)	Three months ended Jun 2013	Three months ended Mar 2013	Three months ended Jun 2012	Six months ended Jun 2013	Six months ended Jun 2012
Claims paid	**28**	7	18	**35**	29
Claims paid – reinsured policies	**2**	1	-	**3**	-
Claims recovered	**(3)**	(3)	(7)	**(6)**	(13)
Actuarial increase in the net allowance for claims	**54**	4	56	**58**	59
Decrease in recoverable insurance claims	**21**	2	4	**23**	6
Claims handling and settlement expenses	**-**	1	-	**1**	1
Total claims-related expenses	**$102**	$12	$71	**$114**	$82

18. Other Income (Expenses)

(in millions of Canadian dollars)	Three months ended **Jun 2013**	Three months ended Mar 2013	Three months ended Jun 2012	Six months ended **Jun 2013**	Six months ended Jun 2012
Net unrealized gain (loss) on loans payable designated at fair value through profit or loss	**118**	54	(71)	**173**	(51)
Net unrealized gain (loss) on derivatives related to loans payable	**(128)**	(70)	103	**(199)**	77
Net realized and unrealized gain (loss) on marketable securities at fair value through profit or loss	**(37)**	(2)	22	**(39)**	9
Net unrealized (loss) on loan related credit default swaps	**(1)**	(3)	(16)	**(5)**	(31)
Net realized and unrealized gain (loss) on investments at fair value through profit or loss	**4**	(4)	(13)	**1**	(12)
Foreign exchange translation gain (loss)	**(6)**	1	(3)	**(5)**	-
Gain (loss) on aircraft or component parts held for sale	**(9)**	1	1	**(8)**	-
Other	**-**	(1)	(1)	**(1)**	(1)
Total other income (expenses)	**$(59)**	$(24)	$22	**$(83)**	$(9)

We have designated the majority of our loans payable at fair value through profit or loss in order to obtain 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 bonds. For the three months ended June 2013, the net unrealized loss on our long-term loans payable and associated derivatives totalled $10 million compared to a loss of $16 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 being valued on curves that reflect the credit risk of the resulting exposure. During the three months ended June 2013, most rates relevant to the valuation of our debt moved less than those relevant to the valuation of the related derivatives in the quarter, leading to losses on our derivatives exceeding the gains on our bonds.

Our marketable securities include short-term instruments, bonds and government securities; as such the value of the portfolio is significantly impacted by long-term U.S. government rates. For the three months ended June 2013, the net realized and unrealized loss on marketable securities was $37 million compared to a loss of $2 million for the previous quarter; a reflection of the larger increase of the long-term U.S. Treasury rates during the quarter compared to the previous one.

In June 2013, there was a revaluation of six aircraft and 2 engines that have been contracted for part-out whereby we seek recovery by selling the component parts of the aircraft. As a result of the revaluation, the carrying value has been written down by $9 million to reflect the current fair value.

19. Administrative Expenses

	Three months ended			Six months ended	
(in millions of Canadian dollars)	**Jun 2013**	Mar 2013	Jun 2012	**Jun 2013**	Jun 2012
Salaries and benefits	**41**	41	40	**82**	80
Pension, other retirement and post-employment benefits	**12**	12	15	**24**	28
Accommodation	**7**	7	6	**14**	13
Amortization and depreciation	**7**	6	7	**12**	14
Other	**10**	9	10	**20**	18
Total administrative expenses	**$77**	$75	$78	**$152**	$153

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

	Three months ended			Six months ended	
(in millions of Canadian dollars)	**Jun 2013**	Mar 2013	Jun 2012	**Jun 2013**	Jun 2012
Pension benefit expense	**8**	8	12	**16**	21
Other post-employment benefit and severance expense	**4**	4	3	**8**	7
	$12	$12	$15	**$24**	$28

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 the Pension Plan in the normal course of business, under terms and conditions similar to those that apply to unrelated parties.