Turning the Corner on Trade

Quarterly Financial Report
June 30, 2014
Unaudited

Realize a World of Opportunity

Canada

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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. We place a particular emphasis on small and medium enterprises by developing tools to help them succeed in international markets. Each year more than 7,200 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, fees on our guarantee products and premiums on our insurance products.

Economic Environment

Despite the sluggish start for the global economy in the first quarter, confidence levels in key Organization for Economic Co-operation and Development (OECD) nations moved back into historically normal territory in the second quarter of 2014. This was most obvious in the U.S. as purchasing managers were more upbeat than expected, housing activity continued to increase, retail sales remained strong and consumer deleveraging laid the groundwork for higher spending going forward. Industrial production followed suit – not just in the U.S., but around the world. U.S. employment also ran ahead of expectations for the quarter and jobless claims continued their downward trajectory.

In Canada, exports declined in April; however, this was mainly due to planned maintenance closures that impacted natural gas and refined petroleum exports. There was strong growth in agricultural, forestry and electronic equipment exports, all of which saw increases in exports of more than 5%. Canada's domestic economy is softening due to high consumer debt levels, an overbought housing market and the absence of growth-enhancing stimulus, consequently the shift toward international prospects will be beneficial going forward.

Business Facilitated

Business facilitated in our direct lending program increased by 21% when compared to the same period in 2013. This is primarily due to an increase in demand within the extractive sector. Business facilitated in our project finance program decreased by 33% when compared to the same period in 2013 due to less activity within the infrastructure and environment sector. In addition, we realized a favourable foreign exchange impact across the financing program as a result of the weakening of the Canadian dollar in relation to the U.S. dollar.

Business facilitated in our credit insurance program decreased by 5% when compared to the same period in 2013. The decrease was primarily due a slowdown in business activity for one large customer.

	For the six months ended	
(in millions of Canadian dollars)	**Jun 2014**	Jun 2013
Business Facilitated		
Direct lending	**7,646**	6,344
Project finance	**981**	1,459
Loan guarantees	**372**	360
Investments	**109**	50
Total financing and investments	**9,108**	8,213
Credit insurance	**26,688**	28,195
Financial institutions insurance	**8,078**	5,017
Contract insurance and bonding	**2,275**	1,810
Political risk insurance	**1,980**	1,945
Total insurance	**39,021**	36,967
Total business facilitated	**$48,129**	$45,180

Business facilitated within our financial institutions insurance portfolio increased by 61% in comparison with the first six months of 2013. This increase is primarily due an increase in demand in major markets, particularly China, Brazil and Turkey.

SUMMARY OF FINANCIAL RESULTS

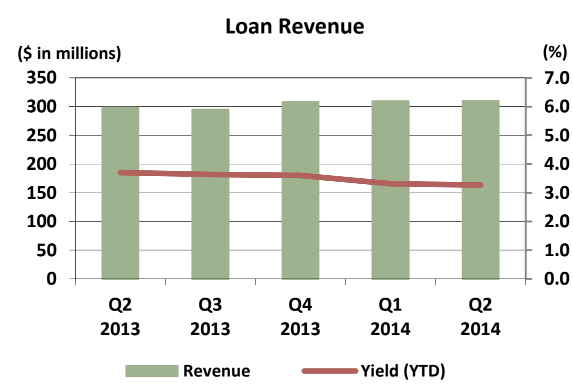
Financial Performance

	For the three months ended			For the six months ended	
(in millions of Canadian dollars)	**Jun 2014**	Mar 2014	Jun 2013	**Jun 2014**	Jun 2013
Net financing and investment income	**302**	315	311	**617**	583
Net insurance premiums and guarantee fees*	**62**	53	60	**115**	116
	364	368	371	**732**	699
Other (income) expenses	**(20)**	(10)	59	**(30)**	83
Administrative expenses	**81**	74	77	**155**	152
Provision for (reversal of) credit losses	**(119)**	149	(132)	**30**	(106)
Claims-related expenses (recovery)	**(52)**	121	102	**69**	114
Net income	**$474**	$34	$265	**$508**	$456

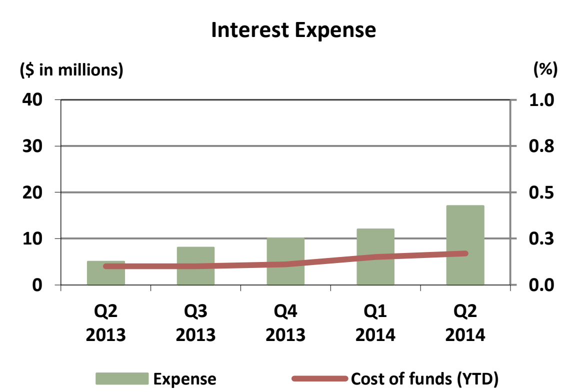
* *Includes loan guarantee fees.*

Reduced provisioning requirements and a recovery of claims-related expenses during the second quarter of 2014 have resulted in an increase in our net income. These changes are discussed beginning on page 6. In addition, we have seen volatility in the fair values of our financial instruments, which is driven by market conditions, and we have reported gains on the sale of aircraft from our leasing portfolio. The impact of these two items is included in other (income) expenses.

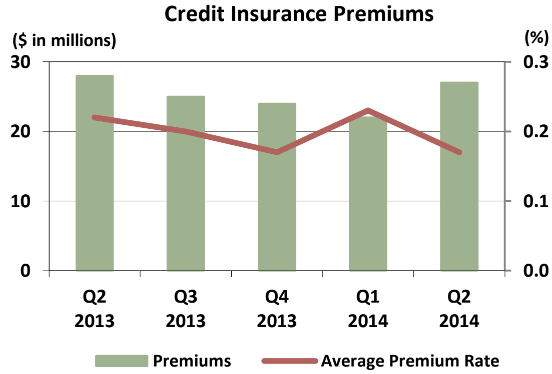
Although the yield on our loan portfolio has been trending downwards reflecting the current interest rate environment, loan revenue has remained stable due to growth in our loan book.



Interest expense has increased in the second quarter of 2014 primarily as a result of carrying higher debt to fund growth in our marketable securities and loans receivable. While market rates have been relatively low, reduced revenue from our currency swaps related to our capital resulted in an increase in our cost of funds. Refer to Note 15 for further details.



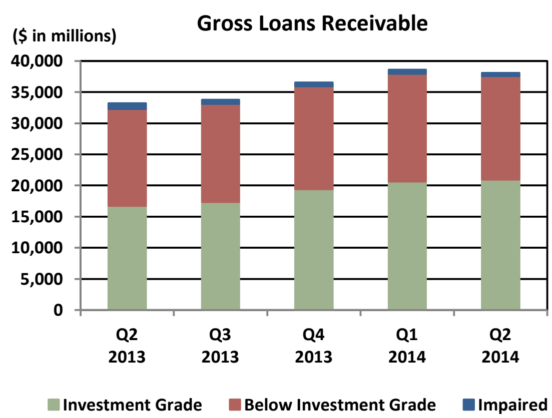
The average premium rate on the credit insurance portfolio was higher in the first quarter of 2014 due to less activity in higher volume accounts with lower premium rates.



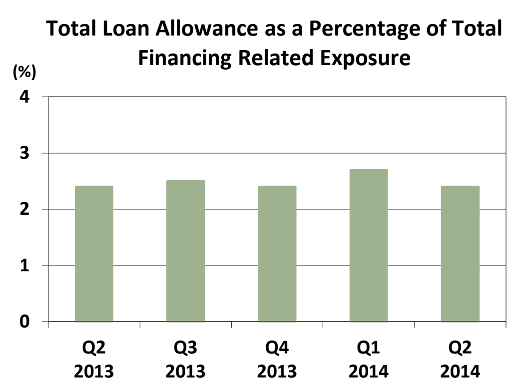
Financial Position

as at *(in millions of Canadian dollars)*	**Jun 2014**	Mar 2014	Dec 2013	Jun 2013
Total assets	**44,590**	46,138	41,516	39,105
Total liabilities	**36,882**	38,862	33,145	31,198
Equity	**7,708**	7,276	8,371	7,907
Gross loans receivable	**38,070**	38,615	36,549	33,211
Total allowances	**1,865**	2,148	1,838	1,770

Gross loans receivable have increased when compared to the same period in 2013 mainly due to net loan disbursements.



Total allowance as a percentage of total financing related exposure decreased from the first quarter primarily due to positive credit migration in the second quarter of 2014.



Impact of Foreign Exchange Translation on Financial Results

At the end of June 2014, the Canadian dollar had strengthened relative to the U.S. dollar when compared to the prior quarter resulting in a rate of U.S. $0.94 on June 30, 2014 versus U.S. $0.90 at March 31, 2014. The strengthened Canadian dollar resulted in a decrease in our assets and liabilities which are primarily denominated in U.S. dollars and translated to Canadian dollars at rates prevailing at the statement of financial position date. Business facilitated and components of comprehensive income are translated into Canadian dollars at average exchange rates. When comparing the average rates, the Canadian dollar was weaker relative to the U.S. dollar in 2014 which resulted in a rate of U.S. $0.91 for the second quarter of 2014 compared to U.S. $0.98 for the second quarter of 2013.

Risk Management

Our business activities expose us to a wide variety of risks including strategic, financial and operational 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 13 of the accompanying financial statements for details on financial instrument risks.

SECOND QUARTER HIGHLIGHTS

	Three months ended	
(in millions of Canadian dollars)	**Jun 2014**	Mar 2014
Income before provisions and claims-related expenses	**303**	304
Provision for (reversal of) credit losses	**(119)**	149
Claims-related expenses (recovery)	**(52)**	121
Net income	**$474**	$34

Net income was $474 million compared to $34 million reported in the previous quarter. The increase was mainly due to lower provision requirements and a recovery of claims-related expenses in the second quarter.

Provisions for credit losses decreased by $268 million mainly due to positive credit migration of $85 million compared to negative credit migration of $78 million in the prior quarter. In addition, in the first quarter, the collateral values associated with our secured aerospace portfolio were adjusted to reflect the age of the aircraft and other market conditions and this resulted in a significant increase to the provision, whereas in the second quarter the impact of adjustments to collateral values was negligible. Refer to Note 17 for further details.

We experienced a $52 million **recovery of claims-related expenses** in the second quarter compared to an expense of $121 million in the first quarter. In the second quarter we adjusted our assumption for the frequency of claims used in the allowance calculation which resulted in a $74 million actuarial decrease in the net allowance for claims on insurance. Refer to Note 8 for further details. The claims-related expense for the first quarter was largely the result of an actuarial increase in the net allowance for claims on insurance to reflect heightened risk in our political risk insurance program.

Other items of note in the second quarter:

During the first quarter of 2014, we transferred 26 aircraft on operating lease, valued at $123 million, out of the equipment available for lease portfolio to the **held-for-sale** portfolio. During the second quarter of 2014, we sold 8 of these aircraft for a gain of $49 million. The sale of the remaining 18 aircraft is anticipated to occur in the second half of 2014; we expect the sale price to approximate the carrying value of the aircraft. Refer to Note 5 for further details.

Impaired loans decreased $212 million in the second quarter mainly due to the return to performing status of one obligor in the aerospace sector as well as the sale of loans for two impaired obligors.

FINANCIAL RESULTS – YEAR TO DATE

Prior Year Comparison

Net income for the first six months of 2014 was $508 million, $52 million higher than the net income reported for the same period of 2013, primarily due to fluctuations in the fair value of our financial instruments and the sale of aircraft from our leasing portfolio, both of which are components of our other income. In addition, we experienced variances in other items which are explained below.

Other income was $30 million compared to other expenses of $83 million for the same period in 2013. The variance is largely due to the volatility associated with our financial instruments carried at fair value as well as the gain on the sale of 8 CRJ900 aircraft from the held-for-sale portfolio in the second quarter. Refer to Note 19 for further details.

We recorded a **provision charge** of $30 million for the first six months of 2014, compared to a release of provision of $106 million for the same period in 2013. In 2014, the impact of credit migration was less significant than in 2013. In addition, the provision charge from the update of the collateral values associated with our secured aerospace portfolio had a greater impact in 2014 which resulted in a higher provision charge than what was required in 2013.

Claims-related expenses were $69 million for the first six months of the year, compared to $114 million for the prior year period. In both years, heightened risk in our political risk insurance program has had a significant impact on our claims-related expenses. As previously discussed, in the second quarter we adjusted our frequency assumptions used in the allowance for claims calculation and this somewhat mitigated the impact of the increased risk in the political risk insurance program in 2014. Refer to Note 8 for further details.

Corporate Plan Comparison

Financial Performance

	Six months ended		Year ended
(in millions of Canadian dollars)	**Jun 2014 Actual Results**	Jun 2014 Corporate Plan	Dec 2014 Corporate Plan
Net financing and investment income	**617**	543	1,115
Net insurance premiums and guarantee fees*	**115**	116	228
Other (income) expenses	**(30)**	(5)	(9)
Administrative expenses	**155**	163	334
Provision for credit losses	**30**	92	177
Claims-related expenses	**69**	30	60
Net income	**508**	379	781
Other comprehensive income (loss)	**(42)**	19	38
Comprehensive income	**$466**	$398	$819

Includes loan guarantee fees.

Net income for the first six months of 2014 was $129 million higher than the Corporate Plan primarily due to an increase in net financing and investment income and lower provisions. In addition, we experienced variances in other items which are explained on the following page.

Net financing and investment income for the first half of 2014 was $617 million, $74 million higher than anticipated in the Corporate Plan. The main contributor to the increase was higher loan interest revenue due to a larger loan book.

The **provision for credit losses** was $30 million for the first six months of 2014, $62 million lower than the Corporate Plan. The decrease was primarily due to upward credit migration not projected in the Plan for one aerospace obligor.

Claims-related expenses for the first half of the year were $39 million higher than the Corporate Plan amount of $30 million. As a result of heightened risk in our political risk insurance portfolio there was an actuarial increase in the net allowance for claims on insurance that was not contemplated at the time of preparing the 2014 Corporate Plan. The impact was somewhat tempered by an adjustment to the frequency of claims assumption in our political risk insurance program which was also not contemplated when the Plan was prepared.

Other comprehensive income for the first six months of 2014 decreased by $61 million when compared with the Corporate Plan due to the re-measurement of pension assets and liabilities. The discount rate used to value our pension obligation decreased in the first six months of the year, while the Corporate Plan had projected that it would increase.

Financial Position

as at *(in millions of Canadian dollars)*	**Jun 2014** **Actual Results**	Jun 2014 Corporate Plan	Dec 2014 Corporate Plan
Cash and marketable securities	**5,625**	4,690	4,690
Derivative instruments	**722**	714	714
Loans receivable	**37,895**	34,044	35,654
Allowance for losses on loans	**(1,255)**	(1,185)	(1,198)
Other financing and leasing assets	**1,168**	1,293	1,324
Other assets	**435**	486	487
Total Assets	**$44,590**	$40,042	$41,671
Loans payable	**35,187**	30,384	31,589
Derivative instruments	**425**	575	575
Allowance for losses on loan commitments	**41**	51	59
Premium and claims liabilities	**641**	614	616
Other liabilities	**588**	673	666
Equity	**7,708**	7,745	8,166
Total Liabilities and Equity	**$44,590**	$40,042	$41,671

Loans receivable were $3.9 billion above Plan due to net loan disbursements for both 2013 and 2014 that were $2.2 billion higher than projected in the Plan as a result of increased financing activity. The weakening of the Canadian dollar has also contributed to the increased loans receivable balance as the majority of our loan portfolio is denominated in U.S. dollars.

Loans payable were $4.8 billion higher than the Corporate Plan mainly due to increased borrowing requirements to fund our growing marketable securities and loans receivable and the impact of a weaker Canadian dollar than projected.

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 include claims paid net of estimated recoveries and changes in actuarial liabilities. This ratio only includes credit insurance activities.

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

The decrease in the claims ratio is due to lower net claims incurred than was experienced in the prior year. Updated assumptions used in the actuarial calculation of the premium liabilities in June 2013 resulted in higher net claims incurred for that period.

	Six months ended	
(in thousands of Canadian dollars)	**Jun 2014**	Jun 2013
Direct premiums	**48,588**	52,705
Reinsurance assumed	**2,326**	3,563
Reinsurance ceded	**(3,116)**	(3,573)
Net written premium	**$47,798**	$52,695
Direct net claims incurred	**16,830**	53,023
Net claims incurred – reinsurance assumed	**3,887**	1,148
Net claims incurred – reinsurance ceded	**(675)**	-
Net claims incurred	**$20,042**	$54,171
Claims ratio %	**41.93%**	102.80%

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, 2014 and for the periods presented in the condensed consolidated quarterly financial statements.

Benoit Daignault,
President and CEO

Ken Kember,
Senior Vice-President and Chief Financial Officer

Ottawa, Canada
August 21, 2014

Export Development Canada
Condensed Consolidated Financial Statements

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

	as at			
	Jun 2014	Mar 2014	Dec 2013	Jun 2013
Assets				
Cash	**163**	119	127	133
Marketable securities:				
At fair value through profit or loss	**5,382**	5,280	3,859	3,890
At amortized cost	**80**	82	80	78
Derivative instruments (Note 7)	**722**	713	688	714
Aircraft held-for-sale (Note 5)	**28**	123	-	-
Loans receivable (Notes 2 and 3)	**37,895**	38,444	36,357	33,017
Allowance for losses on loans (Note 4)	**(1,255)**	(1,440)	(1,246)	(1,141)
Investments at fair value through profit or loss	**583**	567	537	502
Equipment available for lease (Note 5)	**358**	363	493	509
Net investment in aircraft under finance leases	**69**	74	76	79
Recoverable insurance claims (Note 6)	**97**	97	96	179
Reinsurers' share of premium and claims liabilities (Note 8)	**99**	80	93	91
Other assets	**104**	1,372	91	789
Property, plant and equipment	**57**	59	59	61
Intangible assets	**50**	45	44	38
Building under finance lease	**158**	160	162	166
Total Assets	**$44,590**	$46,138	$41,516	$39,105
Liabilities and Equity				
Accounts payable and other credits	**118**	181	144	765
Dividend payable (Note 10)	**-**	379	-	1,440
Loans payable:				
Designated at fair value through profit or loss	**31,545**	32,708	29,108	26,069
At amortized cost	**3,642**	3,684	2,151	1,078
Derivative instruments (Note 7)	**425**	709	626	575
Obligation under finance lease	**168**	169	170	172
Retirement benefit obligations	**153**	118	128	246
Allowance for losses on loan commitments (Note 4)	**41**	40	47	47
Premium and claims liabilities (Note 8)	**641**	706	606	656
Loan guarantees	**149**	168	165	150
	36,882	38,862	33,145	31,198
Financing commitments (Note 2) and contingent liabilities (Note 9)				
Equity				
Share capital (Note 10)	**1,333**	1,333	1,333	1,333
Retained earnings	**6,375**	5,943	7,038	6,574
	7,708	7,276	8,371	7,907
Total Liabilities and Equity	**$44,590**	$46,138	$41,516	$39,105

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 21, 2014

Herbert M. Clarke
Director

Benoit Daignault
Director

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

	For the three months ended			For the six months ended	
	Jun 2014	Mar 2014	Jun 2013	**Jun 2014**	Jun 2013
Financing and investment revenue:					
Loan (Note 14)	**310**	309	298	**619**	571
Finance lease	**2**	1	2	**3**	3
Operating lease	**10**	18	13	**28**	22
Marketable securities	**11**	9	8	**20**	16
Investments	**2**	1	5	**3**	6
Total financing and investment revenue	**335**	338	326	**673**	618
Interest expense (Note 15)	**17**	12	5	**29**	12
Leasing and financing related expenses	**16**	11	10	**27**	23
Net Financing and Investment Income	**302**	315	311	**617**	583
Loan Guarantee Fees	**10**	8	10	**18**	18
Insurance premiums and guarantee fees	**55**	49	52	**104**	104
Reinsurance assumed	**2**	2	4	**4**	6
Reinsurance ceded	**(5)**	(6)	(6)	**(11)**	(12)
Net Insurance Premiums and Guarantee Fees (Note 16)	**52**	45	50	**97**	98
Other (Income) Expenses (Note 19)	**(20)**	(10)	59	**(30)**	83
Administrative Expenses (Note 20)	**81**	74	77	**155**	152
Income before Provision and Claims-Related Expenses	**303**	304	235	**607**	464
Provision for (Reversal of) Credit Losses (Note 17)	**(119)**	149	(132)	**30**	(106)
Claims-Related Expenses (Recovery) (Note 18)	**(52)**	121	102	**69**	114
Net Income	**474**	34	265	**508**	456
Other comprehensive income (loss):					
Pension plan re-measurement	**(42)**	-	16	**(42)**	16
Comprehensive Income	**$432**	$34	$281	**$466**	$472

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			For the six months ended	
	Jun 2014	Mar 2014	Jun 2013	**Jun 2014**	Jun 2013
Share Capital (Note 10)	**1,333**	1,333	1,333	**1,333**	1,333
Retained Earnings					
Balance beginning of period	**5,943**	7,038	7,733	**7,038**	7,542
Net income	**474**	34	265	**508**	456
Other comprehensive income (loss)					
Pension plan re-measurement	**(42)**	**-**	16	**(42)**	16
Dividends (Note 10)	**-**	(1,129)	(1,440)	**(1,129)**	(1,440)
Balance end of period	**6,375**	5,943	6,574	**6,375**	6,574
Total Equity at End of Period	**$7,708**	$7,276	$7,907	**$7,708**	$7,907

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

	For the three months ended			For the six months ended	
	Jun 2014	Mar 2014	Jun 2013	**Jun 2014**	Jun 2013
Cash Flows from (used in) Operating Activities					
Net income	**474**	34	265	**508**	456
Adjustments to determine net cash from (used in) operating activities					
Provision for (reversal of) credit losses	**(119)**	149	(132)	**30**	(106)
Actuarial change in the net allowance for claims on insurance	**(71)**	105	54	**34**	58
Depreciation and amortization	**12**	15	16	**27**	32
Changes in operating assets and liabilities					
Change in accrued interest and fees receivable	**(15)**	(17)	(5)	**(32)**	(13)
Change in fair value of marketable securities	**(15)**	-	48	**(15)**	70
Change in fair value of loans payable	**63**	(13)	(117)	**50**	(168)
Change in derivative instruments receivable	**(13)**	23	192	**10**	283
Change in derivative instruments payable	**161**	75	(575)	**236**	(784)
Other	**1,278**	(1,264)	(49)	**14**	(36)
Loan disbursements	**(4,271)**	(3,857)	(3,518)	**(8,128)**	(6,309)
Loan repayments	**3,497**	3,220	2,706	**6,717**	4,936
Net cash from (used in) operating activities	**981**	(1,530)	(1,115)	**(549)**	(1,581)
Cash Flows from (used in) Investing Activities					
Disbursements for investments	**(29)**	(36)	(34)	**(65)**	(66)
Receipts from investments	**21**	21	3	**42**	10
Finance lease repayments	**3**	4	2	**7**	5
Purchases of marketable securities at fair value through profit or loss	**(13,638)**	(15,825)	(12,050)	**(29,463)**	(21,310)
Sales/maturities of marketable securities at fair value through profit or loss	**13,389**	14,542	12,367	**27,931**	21,632
Net cash from (used in) investing activities	**(254)**	(1,294)	288	**(1,548)**	271
Cash Flows from (used in) Financing Activities					
Issue of long-term loans payable - designated at fair value through profit or loss	**1,489**	4,232	1,353	**5,721**	3,739
Repayment of long-term loans payable - designated at fair value through profit or loss	**(1,765)**	(2,814)	(3,051)	**(4,579)**	(5,198)
Issue of long-term loans payable at amortized cost	**1,198**	1,435	-	**2,633**	-
Repayment of long-term payable at amortized cost	**(1,097)**	-	-	**(1,097)**	-
Issue of short-term loans payable - designated at fair value through profit or loss	**6,546**	4,866	5,871	**11,412**	10,923
Repayment of short-term loans payable - designated at fair value through profit or loss	**(6,588)**	(4,016)	(3,859)	**(10,604)**	(8,732)
Change in derivative instruments receivable	**(4)**	(47)	256	**(51)**	360
Change in derivative instruments payable	**(78)**	(95)	228	**(173)**	268
Dividend paid	**(379)**	(750)	-	**(1,129)**	-
Net cash from (used in) financing activities	**(678)**	2,811	798	**2,133**	1,360
Effect of exchange rate changes on cash	**(5)**	5	3	**-**	3
Net increase (decrease) in cash	**44**	(8)	(26)	**36**	53
Cash					
Beginning of period	**119**	127	159	**127**	80
End of period	**$163**	$119	$133	**$163**	$133
Operating Cash Flows from Interest					
Cash paid for interest on loans payable	**$37**	$20	$27	**$57**	$49
Cash received for interest on currency swaps related to capital	**$17**	$17	$19	**$34**	$37
Cash received for interest on loan assets and marketable securities	**$303**	$272	$279	**$575**	$532

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, 2013. They should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2013 and the accompanying notes as set out on pages 86-139 of our 2013 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, premium and claims liabilities, recoverable insurance claims, retirement benefit obligations and financial instruments measured at fair value. Refer to page 91 of our 2013 Annual Report for details.

New and Amended Accounting Standards

A number of new amendments and improvements effective as of January 1 and July 1, 2014 have been issued by the International Accounting Standards Board (IASB). These amendments and improvements do not have an impact on EDC. The IASB is currently working on projects related to financial instruments, leases and insurance contracts. Revisions to these standards could potentially have a significant impact on EDC's financial statements in future years.

2. Loans Receivable

(in millions of Canadian dollars)	**Jun 2014**	Mar 2014	Dec 2013	Jun 2013
Performing:				
Past due	**20**	24	9	3
Current year and beyond	**37,556**	37,885	35,941	32,269
Performing gross loans receivable	**37,576**	37,909	35,950	32,272
Individually impaired loans (Note 3)	**494**	706	599	939
Gross loans receivable	**38,070**	38,615	36,549	33,211
Accrued interest and fees receivable	**154**	175	154	165
Deferred loan revenue and other credits	**(329)**	(346)	(346)	(359)
Total loans receivable	**$37,895**	$38,444	$36,357	$33,017

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

(in millions of Canadian dollars)		**Jun 2014**		Mar 2014		Dec 2013		Jun 2013
	$	**% of total**	$	% of total	$	% of total	$	% of Total
Investment grade	**20,959**	**55**	20,659	53	19,413	53	16,743	50
Below investment grade	**16,617**	**44**	17,250	45	16,537	45	15,529	47
Individually impaired loans (Note 3)	**494**	**1**	706	2	599	2	939	3
Total gross loans receivable	**$38,070**	**100**	$38,615	100	$36,549	100	$33,211	100

The following table shows our outstanding financing commitments by type:

(in millions of Canadian dollars)	**Jun 2014**	Mar 2014	Dec 2013	Jun 2013
Signed loan commitments	**14,402**	14,533	14,885	14,147
Letters of offer	**3,966**	4,701	4,499	3,265
Confirmed lines of credit	**98**	134	157	107
Total financing commitments	**$18,466**	$19,368	$19,541	$17,519

3. Individually Impaired Loans

(in millions of Canadian dollars)	**Jun 2014**	Mar 2014	Dec 2013	Jun 2013
Gross loans receivable				
Sovereign	**81**	82	81	80
Commercial	**413**	624	518	859
	494	706	599	939
Less: Deferred loan revenue and other credits	**12**	18	15	19
Individual allowance	**337**	405	345	301
Carrying amount of individually impaired loans	**$145**	$283	$239	$619

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

(in millions of Canadian dollars)	**Jun 2014**	Jun 2013
Balance at January 1	**599**	1,160
Loans classified as impaired	**169**	27
Disbursements on loan guarantees called	**14**	5
Loans reinstated to performing	**(170)**	(242)
Principal recoveries from asset sales	**(64)**	(5)
Loans written off	**(50)**	(17)
Principal repayments	**(12)**	(36)
Foreign exchange translation	**8**	47
Balance at June 30	**$494**	$939

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 2014**	Mar 2014	Dec 2013	Jun 2013
Base allowance				
Investment grade exposure	**94**	98	90	80
Non-investment grade exposure	**910**	992	864	806
Total base allowance	**1,004**	1,090	954	886
Counterparty concentration				
Investment grade exposure	**6**	8	4	3
Non-investment grade exposure	**34**	66	71	73
Total counterparty concentration	**40**	74	75	76
Total collective allowance*	**1,044**	1,164	1,029	962
Allowance for individually impaired loans, loan commitments and loan guarantees	**354**	435	379	324
Total allowance for losses on loans, loan commitments and loan guarantees	**$1,398**	$1,599	$1,408	$1,286

* *Includes allowance on finance leases of $3 million (March 2014 - $10 million, December 2013 - $10 million and June 2013 - $11 million).*

In the second quarter of 2014 we have started applying transaction specific Loss Given Default (LGD) ratings for commercial transactions that are not with sovereign or government related entities, or with financial institutions, and that are not related to transactions secured by aircraft as collateral. The development of transaction specific LGD approaches for sovereign and government related entities, as well as for project finance transactions, is underway. The difference between using our transaction specific LGD and the former methodology is a change in accounting estimate and will be disclosed at each reporting date until the end of the project. The change in estimate at the end of the second quarter of 2014 is a $10 million reduction in the allowance. This change in estimate also impacted provision expense reported in Note 17. The impact on future periods has not been determined as it is impracticable to estimate.

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

(in millions of Canadian dollars)	**Jun 2014**	Mar 2014	Dec 2013	Jun 2013
Allowance for losses on loans	**1,255**	1,440	1,246	1,141
Allowance for losses on loan commitments	**41**	40	47	47
Allowance for losses on loan guarantees*	**102**	119	115	98
Total	**$1,398**	$1,599	$1,408	$1,286

* *Included in the liability for loan guarantees.*

For the six months ended June 2014, changes to the allowance for losses on loans, loan commitments and guarantees were as follows:

(in millions of Canadian dollars)	**Collective**	**Individual**	**Jun 2014 Total**	Collective	Individual	Jun 2013 Total
Balance at beginning of year	**1,029**	**379**	**1,408**	1,036	314	1,350
Provision for (reversal of) credit losses on loans, loan commitments and guarantees	**14**	**16**	**30**	(115)	9	(106)
Write-offs	**-**	**(45)**	**(45)**	-	(17)	(17)
Recovery of amounts written-off in prior years	**-**	**4**	**4**	-	1	1
Foreign exchange translation	**1**	**-**	**1**	41	17	58
Total	**$1,044**	**$354**	**$1,398**	$962	$324	$1,286

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 2014**	Mar 2014	Dec 2013	Jun 2013
Cost				
Aircraft	**293**	293	438	438
Engines	**100**	100	181	181
Major overhaul cost	**1**	1	16	16
Total cost	**394**	394	635	635
Accumulated depreciation and impairment				
Aircraft	**(29)**	(25)	(83)	(70)
Engines	**(6)**	(5)	(46)	(43)
Major overhaul cost	**(1)**	(1)	(14)	(13)
Total accumulated depreciation and impairment	**(36)**	(31)	(143)	(126)
Carrying amount	**358**	363	492	509
Lease setup costs	**-**	-	1	-
Total equipment available for lease	**$358**	$363	$493	$509

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 2014**				Jun 2013
	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
CRJ900 Regional Jets	**-**	**-**	**-**	**-**	8	92	8	92 to 95 months
Dash 8 - Q400*	**28**	**358**	**27**	**73 to 87 months**	28	377	23	85 to 96 months
Total portfolio	**28**	**$358**	**27**		54	$509	49	

* *In addition to the 28 aircraft, there are two Dash 8 - Q400 spare engines available for lease.*

In the first quarter of 2014, we reclassified 18 CRJ200 aircraft and 8 CRJ900 aircraft to the held-for-sale portfolio. At the end of the second quarter, all 8 CRJ900s had been sold resulting in a gain of $49 million, the impact of which is included in other (income) expenses. The sale of the CRJ200s is anticipated to occur in the second half of 2014 and these aircraft are carried at $28 million in our held-for-sale portfolio.

At the end of June 2014, there was 1 idle Dash 8 - Q400 aircraft contracted to go out on lease in the third quarter of 2014 for an estimated lease term of 90 months.

6. Recoverable Insurance Claims

(in millions of Canadian dollars)	**Jun 2014**	Jun 2013
Balance at January 1	**96**	200
Claims paid	**36**	35
Claims paid – reinsured policies	**8**	3
Claims recovered	**(7)**	(6)
Claims recovered – reinsured policies	**(1)**	-
Change in recoverable portion of cumulative claims paid	**(36)**	(55)
Foreign exchange translation	**1**	2
Balance at June 30	**$97**	$179

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 2013 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.

All derivative counterparties must have a minimum credit rating of A- and any exception must be approved by the Board of Directors. We have outstanding derivative transactions which had a fair value of $11 million at the end of June 2014 (June 2013 – $13 million) with four counterparties (June 2013 – three) below the minimum credit rating requirement. These exceptions have been approved by the Board of Directors. We do not anticipate any significant non-performance by the counterparties.

To diversify and reduce credit risk within our loan portfolio, we enter into credit default swap transactions that provide us with protection against credit risk. As at June 30, 2014, we held credit default swap protection against two single-name entities (June 30, 2013 – four).

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

(in millions of Canadian dollars)			**Jun 2014**			Dec 2013			Jun 2013
	Positive	**Negative**	**Total**	Positive	Negative	Total	Positive	Negative	Total
Cross currency interest rate swaps	**561**	**350**	**211**	508	526	(18)	489	481	8
Interest rate swaps	**158**	**16**	**142**	165	44	121	197	36	161
Foreign exchange swaps	**2**	**39**	**(37)**	14	33	(19)	27	33	(6)
Credit default swaps – protection purchased	**1**	**18**	**(17)**	1	22	(21)	1	24	(23)
Foreign exchange forwards	**-**	**2**	**(2)**	-	1	(1)	-	1	(1)
Total derivative instruments	**722**	**425**	**297**	688	626	62	714	575	139
Impact of netting agreements	**(237)**	**(237)**	**-**	(357)	(357)	-	(351)	(351)	-
Total	**$485**	**$188**	**$297**	$331	$269	$62	$363	$224	$139
Collateral received			**(198)**			(177)			(248)
Net amount			**$99**			$(115)			$(109)

8. Premium and Claims Liabilities

The table below presents our premium and claims liabilities 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)					**Jun 2014**					Mar 2014					Dec 2013					Jun 2013
	CI	**FII**	**CIB**	**PRI**	**Total**	CI	FII	CIB	PRI	Total	CI	FII	CIB	PRI	Total	CI	FII	CIB	PRI	Total
Insurance	**139**	**7**	**70**	**425**	**641**	140	5	66	495	706	137	3	72	394	606	143	-	115	398	656
Reinsurance	**(5)**	**(3)**	**(2)**	**(89)**	**(99)**	(5)	(3)	(1)	(71)	(80)	(5)	(2)	(1)	(85)	(93)	(2)	-	(1)	(88)	(91)
Net liability	**$134**	**$4**	**$68**	**$336**	**$542**	$135	$2	$65	$424	$626	$132	$1	$71	$309	$513	$141	$-	$114	$310	$565

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

(in millions of Canadian dollars)	**Jun 2014**	Mar 2014	Dec 2013	Jun 2013
Deferred insurance premiums	**89**	89	96	96
Allowance for claims on insurance	**552**	617	510	560
Total premium and claims liabilities	**641**	706	606	656
Reinsurers' share of allowance for claims on insurance	**(85)**	(68)	(80)	(76)
Prepaid reinsurance	**(14)**	(12)	(13)	(15)
Reinsurers' share of premium and claims liabilities	**(99)**	(80)	(93)	(91)
Net premium and claims liabilities	**$542**	$626	$513	$565

In the second quarter, we implemented new frequency assumptions for our political risk insurance portfolio used in the calculation of the net allowance for claims on insurance. The difference between using the new assumptions and the former assumptions is a change in accounting estimate and will be disclosed at each reporting date during 2014. The change in estimate as at June 30, 2014 is a $74 million reduction in the allowance. This change in estimate also impacted claims-related expenses reported in Note 18. The impact on future periods has not yet been determined as it is impracticable to estimate.

9. Contingent Liabilities

As explained on page 90 of the 2013 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 2014**	Mar 2014	Dec 2013	Jun 2013
Credit insurance	**8,467**	7,954	8,407	8,546
Financial institutions insurance	**5,211**	5,317	4,545	4,559
Contract insurance and bonding	**8,111**	8,347	8,322	8,296
Political risk insurance	**1,639**	1,708	1,683	1,611
Reinsurance ceded*	**(150)**	(150)	(150)	(150)
Contingent liabilities – insurance program	**23,278**	23,176	22,807	22,862
Loan guarantees	**1,994**	2,108	2,091	2,048
Total	**$25,272**	$25,284	$24,898	$24,910

* *Treaty reinsurance covering the credit insurance and financial institutions insurance portfolios as well as some bonding obligors.*

10. 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 (2013 – 13.3 million). In the first half of 2014, a dividend of $1.129 billion was paid to the Government of Canada (2013 – $1.44 billion).

11. 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 2014**	Mar 2014	Dec 2013	Jun 2013
Allowance for losses on loans	**1,255**	1,440	1,246	1,141
Allowance for losses on loan commitments	**41**	40	47	47
Allowance for losses on loan guarantees	**102**	119	115	98
Allowance for claims on insurance	**552**	617	510	560
Reinsurers' share of allowance for claims on insurance	**(85)**	(68)	(80)	(76)
Share capital	**1,333**	1,333	1,333	1,333
Retained earnings	**6,375**	5,943	7,038	6,574
Supply of capital	**$9,573**	$9,424	$10,209	$9,677

12. 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 28 on page 124 of the 2013 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)		**Jun 2014**		Mar 2014
	Carrying value	**Fair value**	Carrying value	Fair value
Assets				
Performing fixed rate loans*	**8,487**	**9,146**	8,553	9,197
Performing floating rate loans*	**28,011**	**29,274**	28,178	29,425
Total performing loans receivable*	**36,498**	**38,420**	36,731	38,622
Impaired loans	**145**	**145**	283	283
Loans receivable and accrued interest and fees	**36,643**	**38,565**	37,014	38,905
Marketable securities:				
At fair value through profit or loss	**5,382**	**5,382**	5,280	5,280
At amortized cost	**80**	**80**	82	82
Derivative instruments	**722**	**722**	713	713
Investments at fair value through profit or loss	**583**	**583**	567	567
Recoverable insurance claims	**97**	**97**	97	97
Other assets	**104**	**106**	1,372	1,374
Liabilities				
Accounts payable and other credits	**118**	**124**	181	187
Dividend payable	**-**	**-**	379	379
Loans payable:				
Designated at fair value through profit or loss	**31,545**	**31,545**	32,708	32,708
At amortized cost	**3,642**	**3,652**	3,684	3,686
Derivative instruments	**425**	**425**	709	709
Loan guarantees	**149**	**117**	168	134

* *Performing loans receivable includes accrued interest and fees receivable net of loan allowance, deferred loan revenue and other credits.*

Unobservable Inputs

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 used in these valuation models for investments are outlined in the table on the following page:

(in millions of Canadian dollars)

Valuation technique	Unobservable input	Range (weighted average)	Fair value at Jun 2014[1]
Liquidity discount	Discount rate	10% – 30% (24%)	30
EBITDA Multiple[2]	Multiple of EBITDA	4.0 – 9.9 (9.2)	16
Sales Multiple	Multiple of Sales	1.0 – 6.0 (2.9)	11
Discounted cash flows	Discount rate	18% (18%)	4

[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.

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. EDC's unobservable estimate for recoverable insurance claims is outlined in the table below:

(in millions of Canadian dollars)

Valuation technique	Unobservable input	Range	Fair value at Jun 2014
Discounted cash flows	Probability of recovery	0% – 100%	$97

Fair Value Hierarchy

The table on the following page 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 2014**				Mar 2014
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Assets								
Performing fixed rate loans	**-**	**8,496**	**650**	**9,146**	-	8,609	588	9,197
Performing floating rate loans	**-**	**28,757**	**517**	**29,274**	-	28,899	526	29,425
Total performing loans receivable	**-**	**37,253**	**1,167**	**38,420**	-	37,508	1,114	38,622
Impaired loans	**-**	**145**	**-**	**145**	-	283	-	283
Loans receivable and accrued interest and fees	**-**	**37,398**	**1,167**	**38,565**	-	37,791	1,114	38,905
Marketable securities:								
At fair value through profit or loss	**2,863**	**2,519**	**-**	**5,382**	2,627	2,653	-	5,280
At amortized cost	**80**	**-**	**-**	**80**	82	-	-	82
Derivative instruments	**-**	**661**	**61**	**722**	-	652	61	713
Investments at fair value through profit or loss	**8**	**-**	**575**	**583**	13	-	554	567
Recoverable insurance claims	**-**	**-**	**97**	**97**	-	-	97	97
Other assets	**57**	**49**	**-**	**106**	1,322	52	-	1,374
Liabilities								
Accounts payable and other credits	**72**	**52**	**-**	**124**	133	54	-	187
Dividend payable	**-**	**-**	**-**	**-**	379	-	-	379
Loans payable:								
Designated at fair value through profit or loss	**-**	**31,283**	**262**	**31,545**	-	32,444	264	32,708
Designated at amortized cost	**-**	**3,652**	**-**	**3,652**	-	3,686	-	3,686
Derivative instruments	**-**	**425**	**-**	**425**	-	709	-	709
Loan guarantees	**-**	**117**	**-**	**117**	-	134	-	134

The following table summarizes the reconciliation of Level 3 fair values between the beginning of year and the end of the second quarter of 2014 for the financial instruments carried at fair value:

(in millions of Canadian dollars)					**Jun 2014**
	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	**96**	**526**	**(241)**	**43**	**424**
Accrued interest	**-**	**-**	**(6)**	**6**	**-**
Unrealized gains (losses) included in other expenses	**-**	**20**	**(14)**	**11**	**17**
Purchases of assets/issuances of liabilities	**-**	**65**	**-**	**-**	**65**
Return of capital	**-**	**(25)**	**-**	**-**	**(25)**
Transfers out of Level 3	**-**	**(13)**	**-**	**-**	**(13)**
Foreign exchange translation	**1**	**2**	**(1)**	**1**	**3**
Balance at end of period	**$97**	**$575**	**$(262)**	**$61**	**$471**
Total gains (losses) for the first six months of 2014 included in comprehensive income for instruments held at the end of the quarter	**$-**	**$18**	**$(20)**	**$18**	**$16**

Changes in valuation methods may result in transfers into or out of levels 1, 2 and 3. In the first six months of 2014 quoted prices became available for two investments; as a result, $13 million of investments were transferred from Level 3 to Level 1.

For the quarter ended June 30, 2014, 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 input 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 $9 million to a favourable change of $20 million. On our Level 3 derivative assets the impact ranged from an unfavourable change of $16 million to a favourable change of $7 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: rate of returns, liquidity discount, multiple of EBITDA. 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 $22 million to a favourable change of $23 million.

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 $35 million to a favourable change of $47 million.

13. 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 74 and notes related to our derivative instruments and debt instruments of the 2013 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)		**Jun 2014 Exposure**		Mar 2014 Exposure		Dec 2013 Exposure		Jun 2013 Exposure
Country	**$**	**%**	$	%	$	%	$	%
United States	**13,425**	**28**	12,538	26	11,714	27	11,876	29
Canada	**6,970**	**15**	7,568	16	6,367	14	6,662	16
Mexico	**2,491**	**5**	2,926	6	2,358	5	1,955	5
Brazil	**2,390**	**5**	2,389	5	2,388	5	2,523	6
United Kingdom	**2,272**	**5**	2,140	5	2,734	6	1,146	3
Australia	**2,237**	**5**	2,126	4	2,221	5	2,066	5
Chile	**1,683**	**4**	1,720	4	1,247	3	1,113	3
India	**1,472**	**3**	1,572	3	1,558	4	1,603	4
Saudi Arabia	**884**	**2**	831	2	731	2	590	1
Russia	**845**	**2**	883	2	807	2	693	2
Other	**12,325**	**26**	12,791	27	11,806	27	10,349	26
Total	**$46,994**	**100**	$47,484	100	$43,931	100	$40,576	100

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

(in millions of Canadian dollars)		**Jun 2014 Exposure**		Mar 2014 Exposure		Dec 2013 Exposure		Jun 2013 Exposure
Industry	**$**	**%**	$	%	$	%	$	%
Commercial:								
Extractive	**12,415**	**27**	13,070	28	11,456	26	10,140	25
Aerospace	**10,923**	**23**	11,016	23	10,948	25	10,310	26
Financial institutions	**4,350**	**9**	4,280	9	3,413	8	2,951	7
Surface transportation	**4,297**	**9**	4,733	10	4,406	10	4,475	11
Information and communication technology	**3,697**	**8**	3,244	6	3,994	9	2,973	7
Infrastructure and environment	**3,474**	**7**	3,632	8	3,303	7	3,198	8
Other	**2,418**	**5**	2,389	5	2,044	5	2,142	5
Total commercial	**41,574**	**88**	42,364	89	39,564	90	36,189	89
Sovereign	**5,420**	**12**	5,120	11	4,367	10	4,387	11
Total	**$46,994**	**100**	$47,484	100	$43,931	100	$40,576	100

14. Loan Revenue

	Three months ended			Six months ended	
(in millions of Canadian dollars)	**Jun 2014**	Mar 2014	Jun 2013	**Jun 2014**	Jun 2013
Loan interest					
Floating rate	**164**	163	139	**327**	273
Fixed rate	**99**	101	101	**200**	196
Loan fee revenue	**45**	42	43	**87**	78
Impaired revenue	**-**	2	12	**2**	19
Other	**2**	1	3	**3**	5
Total loan revenue	**$310**	$309	$298	**$619**	$571

15. Interest Expense

(in millions of Canadian dollars)	Three months ended **Jun 2014**	Three months ended Mar 2014	Three months ended Jun 2013	Six months ended **Jun 2014**	Six months ended Jun 2013
Loans payable designated at fair value through profit or loss and related derivatives					
Short-term payables	**8**	7	5	**15**	10
Long-term payables – floating	**20**	20	18	**40**	37
Long-term payables – fixed	**(3)**	(10)	(8)	**(13)**	(16)
Loans payable carried at amortized cost					
Long-term payables – fixed	**9**	11	8	**20**	16
Total interest expense on loans payable and related derivatives	**34**	28	23	**62**	47
Interest income on currency swaps related to capital	**(17)**	(17)	(19)	**(34)**	(37)
Other	**-**	1	1	**1**	2
Total interest expense	**$17**	$12	$5	**$29**	$12

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 with each carrying a floating interest rate.

16. 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 2014**					Mar 2014					Jun 2013
	CI	**FII**	**CIB**	**PRI**	**Total**	CI	FII	CIB	PRI	Total	CI	FII	CIB	PRI	Total
Direct premiums	**27**	**7**	**13**	**8**	**55**	23	6	12	8	49	27	5	12	8	52
Reinsurance assumed	**1**	**-**	**-**	**1**	**2**	1	-	1	-	2	3	-	-	1	4
Reinsurance ceded	**(1)**	**-**	**-**	**(4)**	**(5)**	(2)	-	(1)	(3)	(6)	(2)	-	-	(4)	(6)
Net insurance premiums and guarantee fees	**$27**	**$7**	**$13**	**$5**	**$52**	$22	$6	$12	$5	$45	$28	$5	$12	$5	$50

(in millions of Canadian dollars)	Six months ended				**Jun 2014**					Jun 2013
	CI	**FII**	**CIB**	**PRI**	**Total**	CI	FII	CIB	PRI	Total
Direct premiums	**50**	**13**	**25**	**16**	**104**	54	11	23	16	104
Reinsurance assumed	**2**	**-**	**1**	**1**	**4**	4	-	1	1	6
Reinsurance ceded	**(3)**	**-**	**(1)**	**(7)**	**(11)**	(4)	-	(1)	(7)	(12)
Net insurance premiums and guarantee fees	**$49**	**$13**	**$25**	**$10**	**$97**	$54	$11	$23	$10	$98

17. Provision for (Reversal of) Credit Losses

		Three months ended		Six months ended	
(in millions of Canadian dollars)	**Jun 2014**	Mar 2014	Jun 2013	**Jun 2014**	Jun 2013
Credit migration	**(85)**	78	(87)	**(7)**	(86)
Changes in portfolio composition*	**(20)**	65	(48)	**45**	(11)
Updates to independent variables:					
Decreased (increased) concentration threshold	**-**	6	-	**6**	(8)
Transaction specific loss given default	**(10)**	-	-	**(10)**	-
Other	**(4)**	-	3	**(4)**	(1)
Provision for (reversal of) credit losses	**$(119)**	$149	$(132)	**$30**	$(106)

* *Represents provision requirements (reversals) as a result of disbursements, new financing trade facilitated and repayments. 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 throughout the year.*

		Three months ended		Six months ended	
(in millions of Canadian dollars)	**Jun 2014**	Mar 2014	Jun 2013	**Jun 2014**	Jun 2013
Provision for (reversal of) credit losses on loans	**(106)**	156	(114)	**50**	(79)
Provision for (reversal of) losses on loan commitments	**2**	(9)	(11)	**(7)**	(13)
Provision for (reversal of) losses on loan guarantees	**(15)**	2	(7)	**(13)**	(14)
Provision for (reversal of) credit losses	**$(119)**	$149	$(132)	**$30**	$(106)

18. Claims-Related Expenses (Recovery)

		Three months ended		Six months ended	
(in millions of Canadian dollars)	**Jun 2014**	Mar 2014	Jun 2013	**Jun 2014**	Jun 2013
Claims paid	**22**	14	28	**36**	35
Claims paid – reinsured policies	**5**	3	2	**8**	3
Claims recovered	**(5)**	(2)	(3)	**(7)**	(6)
Claims recovered – reinsured policies	**(1)**	-	-	**(1)**	-
Actuarial increase (decrease) in the net allowance for claims on insurance	**(72)**	106	54	**34**	58
(Increase)/decrease in recoverable insurance claims	**(1)**	-	21	**(1)**	23
Claims handling expenses	**-**	-	-	**-**	1
Total claims-related expenses (recovery)	**$(52)**	$121	$102	**$69**	$114

19. Other (Income) Expenses

	Three months ended			Six months ended	
(in millions of Canadian dollars)	**Jun 2014**	Mar 2014	Jun 2013	**Jun 2014**	Jun 2013
Net unrealized (gain) loss on loans payable designated at fair value through profit or loss	**64**	(38)	(118)	**26**	(173)
Net unrealized loss on derivatives related to loans payable	**3**	26	128	**29**	199
Net realized and unrealized (gain) loss on marketable securities at fair value through profit or loss	**(16)**	(4)	37	**(20)**	39
(Gain) loss on sale of aircraft	**(49)**	-	9	**(49)**	8
Net unrealized loss on loan related credit default swaps	**2**	1	1	**3**	5
Net realized and unrealized gain on investments at fair value through profit or loss	**(23)**	(1)	(4)	**(24)**	(1)
Foreign exchange translation (gain) loss	**(2)**	10	6	**8**	5
Other	**1**	(4)	-	**(3)**	1
Total other (income) expenses	**$(20)**	$(10)	$59	**$(30)**	$83

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 loans payable. For the three months ended June 30, 2014, the net unrealized loss on our loans payable and associated derivatives totalled $67 million compared to a gain of $12 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 June 30, 2014, most rates relevant to the valuation of our loans payable decreased, leading to unrealized losses on our loans payable, while the credit adjusted rates relevant to the valuation of the related derivatives remained generally stable, which resulted to a minimal change in the fair value of these instruments.

Our marketable securities portfolio is highly sensitive to long-term U.S. Treasury rates. For the three months ended June 30, 2014, the net realized and unrealized gain on marketable securities was $16 million compared to a gain of $4 million for the previous quarter; a reflection of a larger decrease of long-term U.S. Treasury rates during the quarter compared to the previous quarter.

We had unrealized gains of $20 million on our investments portfolio in the second quarter of 2014, primarily driven by the strong financial performance of 3 direct investments and an increase in fair value of underlying investments of 13 funds. We also realized gains of $3 million during the quarter.

We realized a gain of $49 million from the sale of 8 CRJ900 aircraft from the held-for-sale portfolio during the second quarter of 2014. Refer to Note 5 for further details.

20. Administrative Expenses

	Three months ended			Six months ended	
(in millions of Canadian dollars)	**Jun 2014**	Mar 2014	Jun 2013	**Jun 2014**	Jun 2013
Salaries and benefits	**44**	41	41	**85**	82
Pension, other retirement and post-employment benefits	**10**	9	12	**19**	24
Accommodation	**6**	7	7	**13**	14
Amortization and depreciation	**5**	6	6	**11**	12
Other	**16**	11	11	**27**	20
Total administrative expenses	**$81**	$74	$77	**$155**	$152

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 2014**	Mar 2014	Jun 2013	**Jun 2014**	Jun 2013
Pension benefit expense	**6**	6	8	**12**	16
Other post-employment benefit and severance expense	**4**	3	4	**7**	8
	$10	$9	$12	**$19**	$24

21. 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.

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