Reaching For Our Export Potential

Quarterly Financial Report
June 30, 2015
Unaudited

Canada

EDC
Realize a World of Opportunity

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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. Our customers are Canadian exporters, investors and their international buyers. We place a particular emphasis on small and medium enterprises by developing tools to help them succeed in international markets. 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, fees on our guarantee products and premiums on our insurance products.

Economic Environment

Indicators out of the second quarter of 2015 point towards the U.S. economy moving forward, although not without volatility, driven notably by the continued labor market tightening. Growth will be supported by the dissipation of the temporary economic slowdown from the severe winter weather in the first quarter of 2015 that hit consumption and from port strikes on the West Coast that paralyzed international trade.

Canadian exports generally benefit from robust U.S. and global growth and a weaker Canadian dollar. Market fundamentals continue to support U.S. dollar strength and the U.S. Federal Reserve seems firmly set to raise its federal funds rate this year, given positive signs that the U.S. economy is ready, as reflected in upward pressure on wage growth as well as upswings in demand for durable goods. Despite the Greek debt crisis, Eurozone economies are experiencing an economic revival aided by low oil prices, more growth-supportive macroeconomic policies and a Quantitative Easing-induced export boost from a depreciated euro. That being said, Eurozone interest rates are set to remain at low levels for some time.

The other key piece of the Canadian exports growth puzzle is the outlook for commodity prices, particularly for copper and iron ore as well as for energy commodities, which continue to be weighed down by decelerating growth in China and other large emerging markets. Additionally, the expectation of the signing of a nuclear agreement between the U.S. and Iran kept a lid on oil prices.

What does all this mean for Canada? Canadian exports have remained weak to date, despite the rebound in June, but the headline masks important sector trends. While the value of exports of energy products remains lower than last year's pace, it has shown signs of stabilizing during the second quarter. Conversely, the value of non-commodity merchandise exports is significantly above last year's pace, with automotive products, machinery and equipment, other consumer goods and forestry products posting strong gains.

Business Facilitated

Business facilitated in our direct lending program increased by 21% when compared to the same period in 2014. This is primarily due to increases in business facilitated within the transportation sector. In addition, we benefited from favourable foreign exchange impacts across the financing program as a result of the weakening of the Canadian dollar in relation to the U.S. dollar.

Business facilitated within our credit insurance program increased by 9% due favourable foreign exchange impacts as a result of the weakened Canadian dollar.

	For the six months ended	
(in millions of Canadian dollars)	**Jun 2015**	Jun 2014
Business Facilitated		
Direct lending	**9,265**	7,646
Project finance	**1,177**	981
Loan guarantees	**488**	372
Investments	**159**	109
Total financing and investments	**11,089**	9,108
Credit insurance	**29,132**	26,688
Financial institutions insurance	**2,958**	8,078
Contract insurance and bonding	**2,322**	2,275
Political risk insurance	**1,945**	1,980
Total insurance	**36,357**	39,021
Total business facilitated	**$47,446**	$48,129

An economic slowdown in China has resulted in a significant decline in demand for capacity from EDC as Canadian financial institutions are able to manage their counterparties within their own limits; consequently there has been a 63% reduction in business facilitated within our financial institutions insurance portfolio.

SUMMARY OF FINANCIAL RESULTS

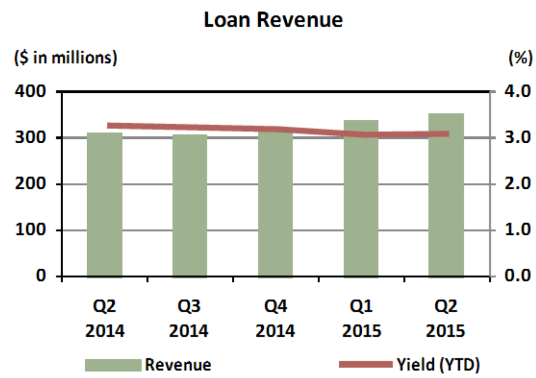
Financial Performance

	For the three months ended			For the six months ended	
(in millions of Canadian dollars)	**Jun 2015**	Mar 2015	Jun 2014	**Jun 2015**	Jun 2014
Net financing and investment income	**319**	319	302	**638**	617
Net insurance premiums and guarantee fees*	**59**	54	62	**113**	115
	378	373	364	**751**	732
Other (income) expenses	**(49)**	(74)	(20)	**(123)**	(30)
Administrative expenses	**86**	86	81	**172**	155
Provision for (reversal of) credit losses	**(6)**	22	(119)	**16**	30
Claims-related expenses (recovery)	**16**	18	(52)	**34**	69
Net income	**$331**	$321	$474	**$652**	$508
Period average U.S.$ equivalent of CAD 1.00	**0.81**	0.81	0.92	**0.81**	0.91

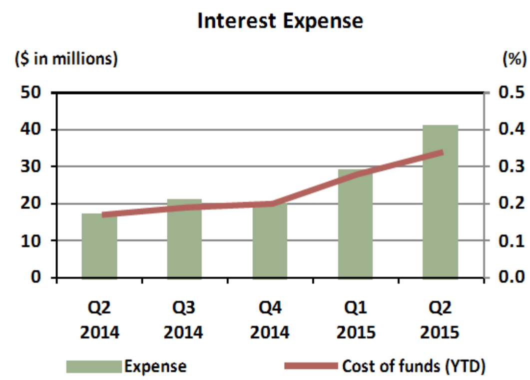
* *Includes loan guarantee fees.*

Net income remained stable when compared to the previous quarter. We continued to see fluctuations in provisioning requirements, claims-related expenses and the fair values of our financial instruments due to market conditions, the impact of which is included in other (income) expenses. These changes are further discussed beginning on page 7.

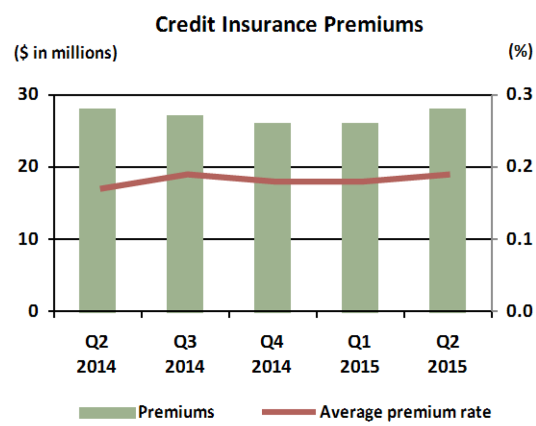
Loan revenue increased in the first six months of 2015 primarily due to foreign exchange translation. The increase was tempered by lower yields, consistent with the current interest rate environment.



In the first half of 2015, interest expense increased due to higher funding requirements for U.S. fixed rate debt. The need to fund some loan disbursements in emerging markets in local currencies where interest rates are much higher, as well as foreign exchange translation also contributed to the increase. Cost of funds increased due to these funding requirements in addition to lower revenue from the currency swaps related to our capital. Refer to Note 14 for further details.



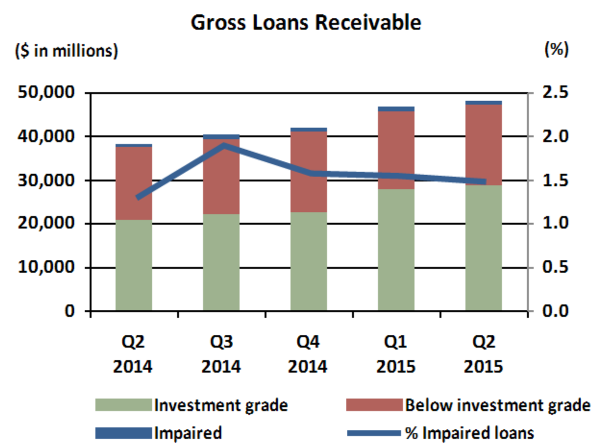
There have been minor fluctuations over the past year in the average credit insurance premium rate primarily due to the timing of insurance transactions with lower premium rate customers.



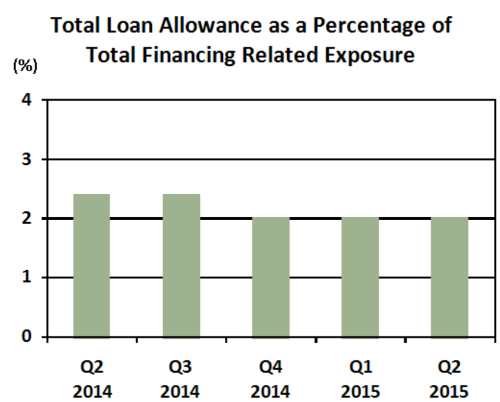
Financial Position

As at *(in millions of Canadian dollars)*	**Jun 2015**	Mar 2015	Dec 2014	Jun 2014
Total assets	**55,044**	54,993	49,004	44,590
Total liabilities	**46,157**	46,466	40,788	36,882
Equity	**8,887**	8,527	8,216	7,708
Gross loans receivable	**47,979**	46,541	41,791	38,070
Total allowances	**1,865**	1,894	1,757	1,865
Period-end U.S.$ equivalent of CAD 1.00	**0.80**	0.79	0.86	0.94

Gross loans receivable have increased in 2015 mainly due to net loan disbursements as well as the weakening of the Canadian dollar. In the third quarter of 2014, the percentage of impaired loans increased mainly due to the impairment of one obligor in the aerospace sector. The subsequent decline in the fourth quarter of 2014 was due to the write off impaired loans where all collection methods had been exhausted and no further prospect of recovery was likely.



Total loan allowance as a percentage of total financing related exposure has declined since the third quarter of 2014 primarily due to upward credit migration in the fourth quarter of 2014.



Impact of Foreign Exchange Translation on Financial Results

Our foreign currency-denominated results are impacted by exchange rate fluctuations. The depreciation of the Canadian dollar relative to the prior year had a favourable impact on our second quarter financial results and financial position. The following table reflects the estimated impact of foreign exchange translation had the Canadian dollar remained stable relative to the U.S. dollar:

	Compared to the three months ended		Compared to the six months ended
(in millions of Canadian dollars)	Mar 2015	Jun 2014	Jun 2014
Financial Results			
Increase (decrease) in comprehensive income	3	(38)	(71)
Increase (decrease) in business facilitated	171	(2,101)	(3,987)

	Compared to		
(in millions of Canadian dollars)	Mar 2015	Dec 2014	Jun 2014
Financial Position			
Increase (decrease) in loans receivable	564	(2,851)	(5,955)
Increase (decrease) in loans payable	625	(3,157)	(6,593)

Risk Management

Our business activities expose us to a wide variety of risks including strategic, financial and operational risks. We manage our risks by seeking to ensure that business activities and transactions provide an appropriate balance of return for the risks assumed and remain within our risk appetite. For a more comprehensive discussion on our risk management, please refer to pages 65-73 of our 2014 Annual Report. Refer to Note 12 of the accompanying financial statements for details on financial instrument risks.

SECOND QUARTER HIGHLIGHTS

Net income of $331 million is in line with the previous quarter, although we experienced variances in the following items:

	Three months ended	
(in millions of Canadian dollars)	**Jun 2015**	Mar 2015
Income before provisions and related expenses	**341**	361
Provision for (reversal of) credit losses	**(6)**	22
Claims-related expenses	**16**	18
Net income	**$331**	$321

We recorded a **provision reversal** of $6 million in the second quarter due to changes in our portfolio composition as the provision release on loan repayments exceeded the provision required on loan disbursements. The impact of the portfolio changes was tempered by downward credit migration. In comparison, we recorded a provision charge of $22 million in the first quarter due to a decline in the value of collateral associated with our secured aerospace portfolio used in the allowance calculation as well as downward credit migration within our portfolio. Refer to Note 16 for further details.

Other income for the second quarter was $49 million compared to $74 million for the first three months of 2015. During the second quarter we recorded a $45 million gain on the sale of aircraft from the held-for-sale portfolio. The remainder of the variance is due to the volatility associated with our financial instruments carried at fair value. Refer to Note 18 for further details.

FINANCIAL RESULTS – YEAR TO DATE

Prior Year Comparison

Net income for the first six months of 2015 was $144 million higher than the net income reported for the same period in 2014 primarily due to an increase in other income and a reduction in claims-related expenses.

Other income was $123 million compared to $30 million for the same period in 2014. The variance is largely due to the volatility associated with our financial instruments carried at fair value. Refer to Note 18 for further details.

Claims-related expenses were $34 million for the first six months of the year, compared to $69 million for 2014. In the first half of 2014, there was an actuarial increase in the net allowance for claims primarily due to heightened risk in our political risk insurance portfolio.

Corporate Plan Comparison

Financial Performance

	Six months ended		Year ended
	Jun 2015	Jun 2015	Dec 2015
(in millions of Canadian dollars)	**Actual Results**	Corporate Plan	Corporate Plan
Net financing and investment income	**638**	565	1,148
Net insurance premiums and guarantee fees*	**113**	117	237
Other (income) expenses	**(123)**	(3)	(6)
Administrative expenses	**172**	176	356
Provision for credit losses	**16**	138	191
Claims-related expenses	**34**	30	59
Net income	**652**	341	785
Other comprehensive income	**19**	77	154
Comprehensive income	**$671**	$418	$939

**Includes loan guarantee fees.*

Net income for the first six months of 2015 was $311 million higher than the Corporate Plan primarily due to changes in provisioning requirements in our loans portfolio and increases in net financing and investment income and other income.

We recorded a **provision charge** of $16 million for the first six months of 2015, $122 million lower than the Corporate Plan. The credit quality of our portfolio was better than anticipated in the Plan and updates to the collateral values for our secured aerospace portfolio resulted in a lower provision charge than anticipated.

Other income was $123 million for the first six months of 2015, $120 million higher than the Corporate Plan. The variance is largely due to realized gains of $47 million on our investments portfolio and a $45 million gain on the sale of aircraft from our held-for-sale portfolio.

Net financing and investment income for the first six months of 2015 was $638 million, $73 million higher than anticipated in the Corporate Plan. The main contributors to the increase were higher loan interest revenue due to a larger loan book and foreign exchange translation.

Other comprehensive income for the first six months of 2015 decreased by $58 million when compared with the Corporate Plan due to the re-measurement of pension assets and liabilities. The increase in the discount rate used to value our pension obligation was less than anticipated in the Corporate Plan.

Financial Position

As at *(in millions of Canadian dollars)*	**Jun 2015 Actual Results**	Jun 2015 Corporate Plan	Dec 2015 Corporate Plan
Cash and marketable securities	**6,433**	5,161	6,148
Derivative instruments	**449**	722	722
Loans receivable	**47,794**	40,083	41,857
Allowance for losses on loans	**(1,256)**	(1,147)	(1,133)
Other financing and leasing assets	**985**	1,236	1,271
Other assets	**639**	469	559
Total Assets	**$55,044**	$46,524	$49,424
Loans payable	**42,271**	37,566	40,156
Derivative instruments	**2,287**	425	425
Allowance for losses on loan commitments	**50**	40	43
Premium and claims liabilities	**643**	597	523
Other liabilities	**906**	592	452
Equity	**8,887**	7,304	7,825
Total Liabilities and Equity	**$55,044**	$46,524	$49,424

Loans receivable were $7.7 billion above the Corporate Plan mostly due to the weakening of the Canadian dollar which resulted in a $4.6 billion increase as the majority of our loan portfolio is denominated in U.S. dollars. In addition, net disbursements for both 2014 and 2015 were higher than projected in the Corporate Plan as a result of increased financing activity.

Loans payable were $4.7 billion higher than the Corporate Plan as a result of foreign exchange translation and the funding required for the increase in loans receivable.

Net derivative instruments were $2.1 billion lower than Plan due to changes in interest rates used for their valuation and fluctuations in foreign exchange rates.

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.

Net claims incurred include claims paid net of recoveries and estimated recoveries of $38,871 thousand (2014 – $18,692 thousand) and an increase in actuarial liabilities of $21,141 thousand (2014 – $1,350 thousand).

The increase in the claims ratio is due to higher net claims incurred than was experienced in the prior year mainly due to an increase in claims paid for 2015 and updated assumptions used in the actuarial calculation of the premium liabilities. We had net claims paid of $29 million relating to losses in the resources sector in the first six months of 2015.

	Six months ended	
(in thousands of Canadian dollars)	**Jun 2015**	Jun 2014
Direct premiums	**50,806**	48,588
Reinsurance assumed	**1,551**	2,326
Reinsurance ceded	**(3,003)**	(3,116)
Net written premium	**$49,354**	$47,798
Direct net claims incurred	**58,996**	19,253
Net claims incurred – reinsurance assumed	**1,214**	1,464
Net claims incurred – reinsurance ceded	**(198)**	(675)
Net claims incurred	**$60,012**	$20,042
Claims ratio %	**121.6%**	41.9%

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, 2015 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 20, 2015

Export Development Canada
Condensed Consolidated Financial Statements

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

	Notes	**Jun 2015**	Mar 2015	Dec 2014	Jun 2014
Assets					
Cash		**143**	18	69	163
Marketable securities:					
At fair value through profit or loss		**6,200**	6,230	6,391	5,382
At amortized cost		**90**	91	85	80
Derivative instruments	6	**449**	548	371	722
Assets held-for-sale		**19**	360	364	28
Loans receivable	2,3	**47,794**	46,332	41,586	37,895
Allowance for losses on loans	4	**(1,256)**	(1,277)	(1,163)	(1,255)
Investments at fair value through profit or loss		**769**	794	689	583
Equipment available for lease		**-**	-	-	358
Net investment in aircraft under finance leases		**65**	72	68	69
Recoverable insurance claims	5	**33**	34	33	97
Reinsurers' share of premium and claims liabilities	7	**101**	113	88	99
Other assets		**370**	1,413	156	104
Property, plant and equipment		**53**	54	56	57
Intangible assets		**63**	58	56	50
Building under finance lease		**151**	153	155	158
Total Assets		**$55,044**	$54,993	$49,004	$44,590
Liabilities and Equity					
Accounts payable and other credits		**362**	735	134	118
Loans payable:					
Designated at fair value through profit or loss		**35,260**	34,894	32,616	31,545
At amortized cost		**7,011**	7,090	5,422	3,642
Derivative instruments	6	**2,287**	2,460	1,377	425
Obligation under finance lease		**164**	165	166	168
Retirement benefit obligations		**231**	263	258	153
Allowance for losses on loan commitments	4	**50**	41	44	41
Premium and claims liabilities	7	**643**	658	618	641
Loan guarantees		**149**	160	153	149
		46,157	46,466	40,788	36,882
Financing commitments (Note 2) and contingent liabilities (Note 8)					
Equity					
Share capital	9	**1,333**	1,333	1,333	1,333
Retained earnings		**7,554**	7,194	6,883	6,375
		8,887	8,527	8,216	7,708
Total Liabilities and Equity		**$55,044**	$54,993	$49,004	$44,590

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 20, 2015.

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	
	Notes	**Jun 2015**	Mar 2015	Jun 2014	**Jun 2015**	Jun 2014
Financing and investment revenue:						
Loan	13	**350**	337	310	**687**	619
Finance lease		**2**	1	2	**3**	3
Operating lease		**-**	-	10	**-**	28
Marketable securities		**13**	14	11	**27**	20
Investments		**1**	1	2	**2**	3
Total financing and investment revenue		**366**	353	335	**719**	673
Interest expense	14	**41**	29	17	**70**	29
Leasing and financing related expenses		**6**	5	16	**11**	27
Net Financing and Investment Income		**319**	319	302	**638**	617
Loan Guarantee Fees		**10**	9	10	**19**	18
Insurance premiums and guarantee fees		**55**	51	55	**106**	104
Reinsurance assumed		**2**	2	2	**4**	4
Reinsurance ceded		**(8)**	(8)	(5)	**(16)**	(11)
Net Insurance Premiums and Guarantee Fees	15	**49**	45	52	**94**	97
Other (Income) Expenses	18	**(49)**	(74)	(20)	**(123)**	(30)
Administrative Expenses	19	**86**	86	81	**172**	155
Income before Provision and Claims-Related Expenses		**341**	361	303	**702**	607
Provision for (Reversal of) Credit Losses	16	**(6)**	22	(119)	**16**	30
Claims-Related Expenses (Recovery)	17	**16**	18	(52)	**34**	69
Net Income		**331**	321	474	**652**	508
Other comprehensive income (loss):						
Pension plan re-measurement		**29**	(10)	(42)	**19**	(42)
Comprehensive Income		**$360**	$311	$432	**$671**	$466

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	
	Notes	**Jun 2015**	Mar 2015	Jun 2014	**Jun 2015**	Jun 2014
Share Capital	9	**1,333**	1,333	1,333	**1,333**	1,333
Retained Earnings						
Balance beginning of period		**7,194**	6,883	5,943	**6,883**	7,038
Net income		**331**	321	474	**652**	508
Other comprehensive income (loss)						
Pension plan re-measurement		**29**	(10)	(42)	**19**	(42)
Dividends		**-**	-	-	**-**	(1,129)
Balance end of period		**7,554**	7,194	6,375	**7,554**	6,375
Total Equity at End of Period		**$8,887**	$8,527	$7,708	**$8,887**	$7,708

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

	For the three months ended			For the six months ended	
	Jun 2015	Mar 2015	Jun 2014	**Jun 2015**	Jun 2014
Cash Flows from (used in) Operating Activities					
Net income	**331**	321	474	**652**	508
Adjustments to determine net cash from (used in) operating activities					
Provision for (reversal of) credit losses	**(6)**	22	(119)	**16**	30
Actuarial change in the net allowance for claims on insurance	**(1)**	(8)	(72)	**(9)**	34
Depreciation and amortization	**8**	7	12	**15**	27
Realized (gains) and losses	**(88)**	(7)	(49)	**(95)**	(52)
Changes in operating assets and liabilities					
Change in accrued interest and fees receivable	**(2)**	(23)	(15)	**(25)**	(32)
Change in fair value of marketable securities	**29**	(24)	(15)	**5**	(15)
Change in fair value of loans payable	**(58)**	73	63	**15**	50
Change in derivative instruments	**81**	(25)	(38)	**56**	(64)
Other	**619**	(657)	1,187	**(38)**	(76)
Loan disbursements	**(4,667)**	(4,432)	(3,919)	**(9,099)**	(7,662)
Loan repayments and principal recoveries from loan asset sales	**3,108**	2,953	3,271	**6,061**	6,377
Net cash from (used in) operating activities	**(646)**	(1,800)	780	**(2,446)**	(875)
Cash Flows from (used in) Investing Activities					
Disbursements for investments	**(41)**	(68)	(29)	**(109)**	(65)
Receipts from investments	**97**	17	24	**114**	44
Finance lease repayments	**6**	2	3	**8**	7
Purchases of marketable securities at fair value through profit or loss	**(15,571)**	(16,610)	(13,638)	**(32,181)**	(29,463)
Sales/maturities of marketable securities at fair value through profit or loss	**15,506**	17,251	13,388	**32,757**	27,931
Purchases of marketable securities at amortized cost	**(5)**	(10)	-	**(15)**	-
Sales/maturities of marketable securities at amortized cost	**5**	10	-	**15**	-
Receipts from sale of assets held-for-sale	**67**	-	13	**67**	13
Net cash from (used in) investing activities	**64**	592	(239)	**656**	(1,533)
Cash Flows from (used in) Financing Activities					
Issue of long-term loans payable - designated at fair value through profit or loss	**2,559**	3,834	1,489	**6,393**	5,721
Repayment of long-term loans payable - designated at fair value through profit or loss	**(2,772)**	(2,969)	(1,764)	**(5,741)**	(4,578)
Issue of long-term loans payable at amortized cost	**(11)**	1,179	1,198	**1,168**	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	**6,949**	4,111	6,546	**11,060**	11,412
Repayment of short-term loans payable - designated at fair value through profit or loss	**(6,021)**	(4,999)	(6,588)	**(11,020)**	(10,604)
Disbursements from sale/maturity of derivative instruments	**-**	-	1	**-**	(16)
Receipts from sale/maturity of derivative instruments	**1**	-	102	**1**	102
Dividend paid	**-**	-	(379)	**-**	(1,129)
Net cash from (used in) financing activities	**705**	1,156	(492)	**1,861**	2,444
Effect of exchange rate changes on cash	**2**	1	(5)	**3**	-
Net increase (decrease) in cash	**125**	(51)	44	**74**	36
Cash					
Beginning of period	**18**	69	119	**69**	127
End of period	**$143**	$18	$163	**$143**	$163
Operating Cash Flows from Interest					
Cash paid for interest on loans payable	**$51**	$31	$37	**$82**	$57
Cash received for interest on currency swaps related to capital	**$13**	$16	$17	**$29**	$34
Cash received for interest on loan assets and marketable securities	**$335**	$310	$303	**$645**	$575

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, 2014. They should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2014 and the accompanying notes as set out on pages 84-139 of our 2014 Annual Report.

Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations

There were no new standards, interpretations, amendments or improvements issued by the IASB requiring mandatory adoption in the second quarter of 2015.

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

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

Other upcoming standards – The IASB is currently working on projects related to insurance contracts, leases, the conceptual framework and principles of disclosure. Revisions to these standards could potentially have a significant impact on EDC's financial statements in future years.

Use of Estimates and Key Judgments

The preparation of financial statements requires the use of estimates and key judgments. Judgment is required in the selection of accounting policies, and their application requires the use of estimates and assumptions to arrive at the reported carrying values of our assets and liabilities. Areas where management has made use of significant estimates and exercised judgement include the allowance for losses on loans, loan commitments and loan guarantees, equipment available for lease and assets-held-for-sale, premium and claims liabilities, recoverable insurance claims, retirement benefit obligations and financial instruments measured at fair value. Refer to page 89 of our 2014 Annual Report for details.

2. Loans Receivable

(in millions of Canadian dollars)	**Jun 2015**	Mar 2015	Dec 2014	Jun 2014
Performing:				
Past due	**23**	79	12	20
Current year and beyond	**47,244**	45,740	41,119	37,556
Performing gross loans receivable	**47,267**	45,819	41,131	37,576
Individually impaired loans (Note 3)	**712**	722	660	494
Gross loans receivable	**47,979**	46,541	41,791	38,070
Accrued interest and fees receivable	**188**	183	163	154
Deferred loan revenue and other credits	**(373)**	(392)	(368)	(329)
Total loans receivable	**$47,794**	$46,332	$41,586	$37,895

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

(in millions of Canadian dollars)		**Jun 2015**		Mar 2015		Dec 2014		Jun 2014
	$	**% of total**	$	% of total	$	% of total	$	% of total
Investment grade	**28,811**	**60**	27,918	60	22,689	54	20,959	55
Below investment grade	**18,456**	**38**	17,901	38	18,442	44	16,617	44
Individually impaired loans (Note 3)	**712**	**2**	722	2	660	2	494	1
Total gross loans receivable	**$47,979**	**100**	$46,541	100	$41,791	100	$38,070	100

The following table shows our outstanding financing commitments by type:

(in millions of Canadian dollars)	**Jun 2015**	Mar 2015	Dec 2014	Jun 2014
Signed loan commitments	**16,957**	16,908	16,593	14,402
Letters of offer	**1,926**	5,268	3,682	3,966
Confirmed lines of credit	**126**	125	122	98
Total financing commitments	**$19,009**	$22,301	$20,397	$18,466

3. Individually Impaired Loans

(in millions of Canadian dollars)	**Jun 2015**	Mar 2015	Dec 2014	Jun 2014
Gross loans receivable				
Commercial	**608**	614	556	413
Sovereign	**104**	108	104	81
	712	722	660	494
Less: Deferred loan revenue and other credits	**47**	40	36	12
Individual allowance	**377**	388	351	337
Carrying amount of individually impaired loans	**$288**	$294	$273	$145

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

(in millions of Canadian dollars)	**Jun 2015**	Jun 2014
Balance at January 1	**660**	599
Loans classified as impaired	**43**	169
Disbursements on loan guarantees called	**6**	14
Capitalized interest	**4**	-
Loans reinstated to performing	**(2)**	(170)
Loans written off	**(3)**	(50)
Principal recoveries from loan asset sales	**-**	(64)
Principal repayments	**(35)**	(12)
Foreign exchange translation	**39**	8
Balance at June 30	**$712**	$494

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

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

(in millions of Canadian dollars)	**Jun 2015**	Mar 2015	Dec 2014	Jun 2014
Base allowance				
Investment grade exposure	**138**	129	104	94
Non-investment grade exposure	**832**	852	804	910
Total base allowance	**970**	981	908	1,004
Counterparty concentration				
Investment grade exposure	**16**	14	6	6
Non-investment grade exposure	**27**	30	31	34
Total counterparty concentration	**43**	44	37	40
Total collective allowance*	**1,013**	1,025	945	1,044
Allowance for individually impaired loans, loan commitments and loan guarantees	**390**	401	363	354
Total allowance for losses on loans, loan commitments and loan guarantees	**$1,403**	$1,426	$1,308	$1,398

** Includes allowance on finance leases of $1 million (March 2015 – $1 million, December 2014 – $2 million and June 2014 – $3 million).*

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

(in millions of Canadian dollars)	**Jun 2015**	Mar 2015	Dec 2014	Jun 2014
Allowance for losses on loans	**1,256**	1,277	1,163	1,255
Allowance for losses on loan commitments	**50**	41	44	41
Allowance for losses on loan guarantees*	**97**	108	101	102
Total	**$1,403**	$1,426	$1,308	$1,398

** Included in the liability for loan guarantees.*

For the six months ended June 2015, changes to the allowance for losses on loans, loan commitments and loan guarantees were as follows:

(in millions of Canadian dollars)	**Collective**	**Individual**	**Jun 2015 Total**	Collective	Individual	Jun 2014 Total
Balance at beginning of year	**945**	**363**	**1,308**	1,029	379	1,408
Provision for credit losses on loans, loan commitments and loan guarantees	**8**	**8**	**16**	14	16	30
Write-offs	**-**	**(3)**	**(3)**	-	(45)	(45)
Recovery of amounts written-off in prior years	**-**	**1**	**1**	-	4	4
Foreign exchange translation	**60**	**21**	**81**	1	-	1
Total	**$1,013**	**$390**	**$1,403**	$1,044	$354	$1,398

5. Recoverable Insurance Claims

(in millions of Canadian dollars)	**Jun 2015**	Jun 2014
Balance at January 1	**33**	96
Claims paid	**50**	36
Claims paid – reinsured policies	**1**	8
Claims recovered	**(10)**	(7)
Claims recovered – reinsured policies	**-**	(1)
Change in recoverable portion of cumulative claims paid	**(42)**	(36)
Foreign exchange translation	**1**	1
Balance at June 30	**$33**	$97

6. 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 109 of the 2014 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. At June 30, 2015, we held derivatives with three counterparties (June 2014 – four) who have a rating below this requirement. The derivative transactions had a positive fair value of $3 million (June 2014 – $15 million) for one counterparty and a negative fair value of $59 million (June 2014 – $4 million) for the remaining two counterparties. These exceptions have been approved by the Board of Directors. We do not anticipate any significant non-performance by these counterparties.

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

(in millions of Canadian dollars)			**Jun 2015**			Dec 2014			Jun 2014
	Positive	**Negative**	**Total**	Positive	Negative	Total	Positive	Negative	Total
Cross currency interest rate swaps	**269**	**2,233**	**(1,964)**	170	1,339	(1,169)	561	350	211
Interest rate swaps	**141**	**16**	**125**	141	21	120	158	16	142
Foreign exchange swaps	**39**	**31**	**8**	60	7	53	2	39	(37)
Credit default swaps – protection purchased	**-**	**6**	**(6)**	-	10	(10)	1	18	(17)
Foreign exchange forwards	**-**	**1**	**(1)**	-	-	-	-	2	(2)
Total derivative instruments	**449**	**2,287**	**(1,838)**	371	1,377	(1,006)	722	425	297
Impact of netting agreements	**(221)**	**(221)**	**-**	(188)	(188)	-	(237)	(237)	-
Total	**$228**	**$2,066**	**$(1,838)**	$183	$1,189	$(1,006)	$485	$188	$297
Applicable collateral			**(67)**			(64)			(184)
Net amount			**$(1,905)**			$(1,070)			$113

7. Premium Claims and 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 2015**				Mar 2015				Dec 2014				Jun 2014
	CI*	**CIB**	**PRI**	**Total**	CI*	CIB	PRI	Total	CI*	CIB	PRI	Total	CI*	CIB	PRI	Total
Insurance	**150**	**80**	**413**	**643**	135	84	439	658	126	82	410	618	146	70	425	641
Reinsurance	**(2)**	**(1)**	**(98)**	**(101)**	(2)	(1)	(110)	(113)	-	(2)	(86)	(88)	(8)	(2)	(89)	(99)
Net liability	**$148**	**$79**	**$315**	**$542**	$133	$83	$329	$545	$126	$80	$324	$530	$138	$68	$336	$542

* *Includes financial institutions insurance.*

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

(in millions of Canadian dollars)	**Jun 2015**	Mar 2015	Dec 2014	Jun 2014
Deferred insurance premiums	**99**	91	96	89
Allowance for claims on insurance	**544**	567	522	552
Total premium and claims liabilities	**643**	658	618	641
Reinsurers' share of allowance for claims on insurance	**(82)**	(99)	(73)	(85)
Prepaid reinsurance	**(19)**	(14)	(15)	(14)
Reinsurers' share of premium and claims liabilities	**(101)**	(113)	(88)	(99)
Net premium and claims liabilities	**$542**	$545	$530	$542

8. Contingent Liabilities

As explained on page 88 of the 2014 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 2015**	Mar 2015	Dec 2014	Jun 2014
Insurance in force:				
Credit insurance	**9,074**	8,542	8,665	8,467
Financial institutions insurance	**3,211**	3,440	3,797	5,211
Contract insurance and bonding	**8,612**	8,722	8,379	8,111
Political risk insurance	**1,616**	1,631	1,564	1,639
Reinsurance ceded*	**(250)**	(250)	(250)	(150)
Insurance in force	**22,263**	22,085	22,155	23,278
Loan guarantees	**2,084**	2,184	2,108	1,994
Total	**$24,347**	$24,269	$24,263	$25,272

* *Represents treaty reinsurance agreements covering most bonding obligors and the credit insurance portfolio, including most foreign bank exposures.*

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 (2014 – 13.3 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 2015**	Mar 2015	Dec 2014	Jun 2014
Allowance for losses on loans	**1,256**	1,277	1,163	1,255
Allowance for losses on loan commitments	**50**	41	44	41
Allowance for losses on loan guarantees	**97**	108	101	102
Allowance for claims on insurance	**544**	567	522	552
Reinsurers' share of allowance for claims on insurance	**(82)**	(99)	(73)	(85)
Share capital	**1,333**	1,333	1,333	1,333
Retained earnings	**7,554**	7,194	6,883	6,375
Supply of capital	**$10,752**	$10,421	$9,973	$9,573

11. Fair Value of Financial Instruments

Fair value represents our estimation of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For a full description of our controls, policies and valuation techniques surrounding fair value of financial instruments refer to Note 29 on page 124 of the 2014 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 2015**		Mar 2015
	Carrying value	**Fair value**	Carrying value	Fair value
Assets				
Performing fixed rate loans*	**10,180**	**10,478**	10,178	10,687
Performing floating rate loans*	**36,210**	**36,834**	34,753	35,710
Accrued interest receivable, deferred revenue and other credits	**(185)**	**(185)**	(169)	(169)
Total performing loans receivable*	**46,205**	**47,127**	44,762	46,228
Impaired loans	**335**	**335**	294	294
Loans receivable and accrued interest and fees	**46,540**	**47,462**	45,056	46,522
Marketable securities:				
At fair value through profit or loss	**6,200**	**6,200**	6,230	6,230
At amortized cost	**90**	**86**	91	87
Derivative instruments	**449**	**449**	548	548
Investments at fair value through profit or loss	**769**	**769**	794	794
Recoverable insurance claims	**33**	**33**	34	34
Other assets	**370**	**369**	1,413	1,412
Liabilities				
Accounts payable and other credits	**362**	**368**	735	742
Loans payable:				
Designated at fair value through profit or loss	**35,260**	**35,260**	34,894	34,894
At amortized cost	**7,011**	**7,021**	7,090	7,141
Derivative instruments	**2,287**	**2,287**	2,460	2,460
Loan guarantees	**149**	**114**	160	125

* *Performing loans receivable are net of loan allowance.*

Unobservable Inputs – Investments at Fair Value Through Profit or Loss

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

(in millions of Canadian dollars)

Valuation technique	Unobservable input	Range (weighted average)	Fair value at Jun 2015[1]
	Multiple of Sales	0.5 – 5.2 (2.4)	8
Sales Multiple	Liquidity discount	15% – 30% (26%)	13
	Multiple of EBITDA	4.0 – 7.0 (6.6)	11
EBITDA Multiple[2]	Discount rate	25% – 30% (27%)	4
Discounted cash flows	Discount rate	0% – 50% (8%)	23

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

Fair Value Hierarchy

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

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

(in millions of Canadian dollars)				**Jun 2015**				Mar 2015
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Assets								
Performing fixed rate loans	**-**	**10,029**	**449**	**10,478**	-	10,226	461	10,687
Performing floating rate loans	**-**	**36,427**	**407**	**36,834**	-	35,372	338	35,710
Accrued interest receivable, deferred revenue and other credits	**-**	**(185)**	**-**	**(185)**	-	(169)	-	(169)
Total performing loans receivable	**-**	**46,271**	**856**	**47,127**	-	45,429	799	46,228
Impaired loans	**-**	**335**	**-**	**335**	-	294	-	294
Loans receivable and accrued interest and fees	**-**	**46,606**	**856**	**47,462**	-	45,723	799	46,522
Marketable securities:								
At fair value through profit or loss	**3,222**	**2,978**	**-**	**6,200**	3,386	2,844	-	6,230
At amortized cost	**86**	**-**	**-**	**86**	87	-	-	87
Derivative instruments	**-**	**375**	**74**	**449**	-	468	80	548
Investments at fair value through profit or loss	**1**	**-**	**768**	**769**	1	-	793	794
Recoverable insurance claims	**-**	**-**	**33**	**33**	-	-	34	34
Other assets	**320**	**49**	**-**	**369**	1,360	52	-	1,412
Liabilities								
Accounts payable and other credits	**314**	**54**	**-**	**368**	685	57	-	742
Loans payable:								
Designated at fair value through profit or loss	**-**	**34,961**	**299**	**35,260**	-	34,573	321	34,894
At amortized cost	**-**	**7,021**	**-**	**7,021**	-	7,141	-	7,141
Derivative instruments	**-**	**2,287**	**-**	**2,287**	-	2,460	-	2,460
Loan guarantees	**-**	**114**	**-**	**114**	-	125	-	125

The following table summarizes the reconciliation of Level 3 fair values between the beginning of year and the end of the second quarter of 2015 for the financial instruments carried at fair value:

(in millions of Canadian dollars)					**Jun 2015**
	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	**33**	**687**	**(292)**	**72**	**500**
Decrease in recoverable insurance claims	**(1)**	**-**	**-**	**-**	**(1)**
Accrued interest	**-**	**-**	**(4)**	**4**	**-**
Unrealized gains (losses) included in other (income) expenses	**-**	**6**	**7**	**(7)**	**6**
Purchases of assets/issuances of liabilities	**-**	**118**	**-**	**-**	**118**
Matured assets/liabilities	**-**	**-**	**13**	**-**	**13**
Return of capital	**-**	**(73)**	**-**	**-**	**(73)**
Foreign exchange translation	**1**	**30**	**(23)**	**5**	**13**
Balance at end of period	**$33**	**$768**	**$(299)**	**$74**	**$576**
Total gains (losses) for the first six months of 2015 included in comprehensive income for instruments held at the end of the quarter	**$(2)**	**$52**	**$(6)**	**$7**	**$51**

Changes in valuation methods may result in transfers into or out of levels 1, 2 and 3. In the first three months of 2015, there were no transfers between levels.

The fair value of Level 3 financial instruments is in whole or in part based on unobservable inputs. In preparing financial statements, appropriate levels for these unobservable input parameters are chosen so that they are consistent with prevailing market evidence or management judgment. For the quarter ended June 30, 2015, a sensitivity analysis was performed using possible alternative assumptions to recalculate the fair value of our Level 3 financial instruments.

In order to perform our sensitivity analysis on our Level 3 loans payable and derivative assets, we adjusted the yield curve and volatility assumptions used to value them. The results of our analysis on our Level 3 loans payable ranged from an unfavourable change of $5 million to a favourable change of $11 million. On our Level 3 derivative assets the impact ranged from an unfavourable change of $8 million to a favourable change of $4 million.

In order to perform our sensitivity analysis for our Level 3 investments, we adjusted the unobservable inputs. The unobservable inputs used to value our Level 3 investments include one or more of the following: multiple of sales, liquidity discount, multiple of EBITDA and discount rate. When multiple unobservable inputs are shocked, no netting is considered, resulting in the highest favourable or unfavourable change. The results of our analysis on our Level 3 investments ranged from an unfavourable change of $46 million to a favourable change of $46 million.

12. Financial Instrument Risks

The principal risks that we are exposed to as a result of holding financial instruments are credit, market and liquidity risk. For a full description of our objectives, policies and processes for managing financial instrument risk refer to management’s discussion and analysis on pages 68 to 72 and notes related to our derivative instruments and debt instruments of the 2014 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 2015 Exposure**		Mar 2015 Exposure		Dec 2014 Exposure		Jun 2014 Exposure	
Country	**$**	**%**	$	%	$	%	$	%
United States	**15,337**	**27**	15,837	28	14,414	28	13,425	28
Canada	**7,622**	**13**	7,885	14	7,441	15	6,970	15
United Kingdom	**3,637**	**6**	2,591	5	2,074	4	2,272	5
Brazil	**3,396**	**6**	3,474	6	3,230	6	2,390	5
Australia	**2,749**	**5**	2,661	5	2,882	6	2,237	5
Chile	**2,176**	**4**	2,193	4	1,995	4	1,683	4
Mexico	**2,444**	**4**	2,482	4	2,557	5	2,491	5
India	**1,518**	**3**	1,675	3	1,690	3	1,472	3
Saudi Arabia	**1,637**	**3**	1,579	3	1,180	2	884	2
China	**1,318**	**2**	1,265	2	1,006	2	668	1
Other	**15,880**	**27**	14,764	26	13,035	25	12,502	27
Total	**$57,714**	**100**	$56,406	100	$51,504	100	$46,994	100

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

(in millions of Canadian dollars)	**Jun 2015 Exposure**		Mar 2015 Exposure		Dec 2014 Exposure		Jun 2014 Exposure	
Industry	**$**	**%**	$	%	$	%	$	%
Commercial:								
Extractive	**15,695**	**27**	15,868	28	14,789	29	12,415	27
Aerospace	**13,016**	**23**	12,778	23	11,715	23	10,923	23
Financial institutions	**6,165**	**11**	5,410	9	5,269	10	4,350	9
Surface transportation	**5,353**	**9**	5,519	10	4,228	8	4,297	9
Information and communications technology	**4,999**	**9**	4,291	8	4,039	8	3,697	8
Infrastructure and environment	**3,550**	**6**	3,370	6	3,065	6	3,474	7
Other	**2,775**	**5**	2,789	5	2,552	5	2,418	5
Total commercial	**51,553**	**90**	50,025	89	45,657	89	41,574	88
Sovereign	**6,161**	**10**	6,381	11	5,847	11	5,420	12
Total	**$57,714**	**100**	$56,406	100	$51,504	100	$46,994	100

13. Loan Revenue

	Three months ended			Six months ended	
(in millions of Canadian dollars)	**Jun 2015**	Mar 2015	Jun 2014	**Jun 2015**	Jun 2014
Loan interest					
Floating rate	**199**	190	164	**389**	327
Fixed rate	**100**	104	99	**204**	200
Loan fee revenue	**44**	41	45	**85**	87
Impaired revenue	**5**	-	-	**5**	2
Other	**2**	2	2	**4**	3
Total loan revenue	**$350**	$337	$310	**$687**	$619

14. Interest Expense

(in millions of Canadian dollars)	Three months ended Jun 2015	Mar 2015	Jun 2014	Six months ended Jun 2015	Jun 2014
Loans payable designated at fair value through profit or loss and related derivatives					
Short-term payables	**13**	9	8	**22**	15
Long-term payables – floating	**23**	21	20	**44**	40
Long-term payables – fixed*	**(4)**	(4)	(3)	**(8)**	(13)
Loans payable carried at amortized cost					
Long-term payables – fixed	**20**	18	9	**38**	20
Total interest expense on loans payable and related derivatives	**52**	44	34	**96**	62
Interest income on currency swaps related to capital	**(12)**	(15)	(17)	**(27)**	(34)
Other	**1**	-	-	**1**	1
Total interest expense	**$41**	$29	$17	**$70**	$29

* *Includes interest on instruments with cash flows that offset the cash flows of some long-term payables carried at amortized cost.*

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

15. Net Insurance Premiums and Guarantee Fees

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

	Three months ended														
(in millions of Canadian dollars)					**Jun 2015**					Mar 2015					Jun 2014
	CI	**FII**	**CIB**	**PRI**	**Total**	CI	FII	CIB	PRI	Total	CI	FII	CIB	PRI	Total
Direct premiums	**27**	**5**	**15**	**8**	**55**	26	4	14	7	51	27	7	13	8	55
Reinsurance assumed	**1**	**-**	**1**	**-**	**2**	-	-	1	1	2	1	-	-	1	2
Reinsurance ceded	**(1)**	**(1)**	**(2)**	**(4)**	**(8)**	(2)	-	(2)	(4)	(8)	(1)	-	-	(4)	(5)
Net insurance premiums and guarantee fees	**$27**	**$4**	**$14**	**$4**	**$49**	$24	$4	$13	$4	$45	$27	$7	$13	$5	$52

(in millions of Canadian dollars)	Six months ended Jun 2015					Jun 2014				
	CI	**FII**	**CIB**	**PRI**	**Total**	CI	FII	CIB	PRI	Total
Direct premiums	**53**	**9**	**29**	**15**	**106**	50	13	25	16	104
Reinsurance assumed	**1**	**-**	**2**	**1**	**4**	2	-	1	1	4
Reinsurance ceded	**(3)**	**(1)**	**(4)**	**(8)**	**(16)**	(3)	-	(1)	(7)	(11)
Net insurance premiums and guarantee fees	**$51**	**$8**	**$27**	**$8**	**$94**	$49	$13	$25	$10	$97

16. Provision for (Reversal of) Credit Losses

	Three months ended			Six months ended	
(in millions of Canadian dollars)	**Jun 2015**	Mar 2015	Jun 2014	**Jun 2015**	Jun 2014
Credit migration	**56**	11	(85)	**67**	(7)
Changes in portfolio composition*	**(61)**	10	(20)	**(51)**	45
Updates to independent variables:					
Decreased concentration threshold	**-**	1	-	**1**	6
Transaction specific loss given default	**-**	-	(10)	**-**	(10)
Other	**(1)**	-	(4)	**(1)**	(4)
Provision for (reversal of) credit losses	**$(6)**	$22	$(119)	**$16**	$30

* *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 2015**	Mar 2015	Jun 2014	**Jun 2015**	Jun 2014
Provision for (reversal of) credit losses on loans	**(6)**	25	(106)	**19**	50
Provision for (reversal of) losses on loan commitments	**9**	(5)	2	**4**	(7)
Provision for (reversal of) losses on loan guarantees	**(9)**	2	(15)	**(7)**	(13)
Provision for (reversal of) credit losses	**$(6)**	$22	$(119)	**$16**	$30

17. Claims-Related Expenses (Recovery)

	Three months ended			Six months ended	
(in millions of Canadian dollars)	**Jun 2015**	Mar 2015	Jun 2014	**Jun 2015**	Jun 2014
Claims paid	**18**	32	22	**50**	36
Claims paid – reinsured policies	**1**	-	5	**1**	8
Claims recovered	**(3)**	(7)	(5)	**(10)**	(7)
Claims recovered – reinsured policies	**-**	-	(1)	**-**	(1)
Actuarial increase (decrease) in the net allowance for claims on insurance	**(1)**	(8)	(72)	**(9)**	34
(Increase) decrease in recoverable insurance claims	**-**	1	(1)	**1**	(1)
Claims handling expenses	**1**	-	-	**1**	-
Total claims-related expenses (recovery)	**$16**	$18	$(52)	**$34**	$69

18. Other (Income) Expenses

(in millions of Canadian dollars)	Three months ended **Jun 2015**	 Mar 2015	 Jun 2014	Six months ended **Jun 2015**	 Jun 2014
(Gain) loss on sale of aircraft and component parts	**(45)**	-	(49)	**(45)**	(49)
Net unrealized (gain) loss on derivatives related to loans payable	**100**	(64)	3	**36**	29
Net unrealized (gain) loss on loans payable designated at fair value through profit or loss	**(87)**	45	64	**(42)**	26
Net realized and unrealized gain on marketable securities at fair value through profit or loss	**25**	(27)	(16)	**(2)**	(20)
Net realized and unrealized gain on investments at fair value through profit or loss	**(37)**	(16)	(23)	**(53)**	(24)
Foreign exchange translation (gain) loss	**(1)**	(9)	2	**(10)**	8
Other	**(4)**	(3)	(1)	**(7)**	-
Total other (income) expenses	**$(49)**	$(74)	$(20)	**$(123)**	$(30)

We realized a gain of $45 million from the sale of 27 Q400 aircraft and 3 CRJ200 aircraft from the held-for-sale portfolio during the second quarter of 2015. These aircraft were originally returned to EDC due to default under the related obligor loan agreements and were subsequently leased out in order to maximize recoveries on the returned aircraft and minimize potential losses.

We have designated the majority of our loans payable at fair value through profit or loss in order to follow the same accounting treatment as their related derivatives. In general, these derivatives are entered into to manage interest and foreign exchange rate risks on the related loans payable. For the three months ended June 30, 2015, the net unrealized loss on our loans payable and associated derivatives totalled $13 million compared to a gain of $19 million for the previous quarter. In accordance with IFRS, our debt is valued on the basis of our credit rating (AAA) while the related derivatives are valued based on the credit risk of the resulting exposure. During the three months ended June 30, 2015, the credit adjusted rates relevant to the valuation of derivatives had larger increases than the rates applicable to loans payable, leading to losses on our derivatives compared to gains on our loans payable.

Our marketable securities portfolio is highly sensitive to long-term U.S. Treasury rates. For the three months ended June 30, 2015, the net realized and unrealized loss on marketable securities was $25 million compared to a gain of $27 million for the previous quarter, which is a reflection of the increase in long-term U.S. Treasury rates.

We had realized gains of $41 million on our investments portfolio in the second quarter of 2015 due to strong private equity market activity; with most of the gain related to indirect holdings of our fund investments being sold at high valuation multiples.

19. Administrative Expenses

	Three months ended			Six months ended	
(in millions of Canadian dollars)	**Jun 2015**	Mar 2015	Jun 2014	**Jun 2015**	Jun 2014
Salaries and benefits	**43**	45	44	**88**	85
Pension, other retirement and post-employment benefits	**14**	13	10	**27**	19
Occupancy	**6**	7	6	**13**	13
Amortization and depreciation	**6**	6	5	**12**	11
Other	**17**	15	16	**32**	27
Total administrative expenses	**$86**	$86	$81	**$172**	$155

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 2015**	Mar 2015	Jun 2014	**Jun 2015**	Jun 2014
Pension benefit expense	**9**	9	6	**18**	12
Other post-employment benefit and severance expense	**5**	4	4	**9**	7
	$14	$13	$10	**$27**	$19

20. Related Party Transactions

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

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