Navigating the Volatility

Quarterly Financial Report
June 30, 2016
Unaudited

Canada

EDC

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Caution regarding forward-looking statements

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

OVERVIEW

Export Development Canada (EDC) is Canada's export credit agency. Our mandate is to support and develop Canada's trade, and the capacity of Canadian companies to participate in and respond to international business opportunities. We provide insurance and financial services, bonding products, small business solutions as well as online credit risk management tools. Our customers are Canadian exporters, investors and their international buyers. We place a particular emphasis on small and medium enterprises by developing tools to help them succeed in international markets. Each year more than 7,300 Canadian companies and their global customers in up to 140 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

The second quarter of 2016 brought no shortage of uncertainty and volatility to the global markets. In Europe, the vote to exit Britain from the European Union shocked markets and threatens the tentative upswing in the European region. In addition, ever deeper negative interest rates – including many sovereigns' bonds – rattled investor perception of banking sector health in Europe. In the U.S., the stage is set for a presidential election of historic significance. In Canada, wildfires devastated communities and energy infrastructure in Fort McMurray and surrounding areas in what has become the costliest disaster in Canadian history, hitting an already battered Alberta. And finally, among the BRIC countries fortunes remained mixed – the Chinese economy continued to hum along partly due to government stimulus soothing the fears of an economic slowdown, Brazil's economic malaise continued and Russia's economic downturn moderated partly due to the recovery in oil prices.

Despite the continued volatility and uncertainty, a number of developments held promise for Canada's economic and trade health. Europe's economic growth has so far remained robust in spite of the items noted previously, driven by gradually improving fundamentals. In the U.S., the volatility experienced from the strong U.S. dollar, low oil prices and the slowdown in the manufacturing sector has gradually dissipated primarily due to the resurgence of the underlying demand fundamentals that power the U.S. economy.

What does this mean for Canada? Closely mirroring the rise in oil prices, the Canadian dollar staged a remarkable recovery from the 68 cent mark at the beginning of 2016 to an average of 78 cents during the second quarter. Despite this recovery, the Canadian dollar continues to remain weak compared to recent years and the long-expected competitive lift from the strong U.S. dollar and robust U.S. economy was not enough to offset sluggish foreign demand. That being said, the year-to-date pace among non-energy exports that stand to benefit the most from resurgent U.S. demand remained very strong, led by the automotive and consumer goods sectors.

Business Facilitated

Financing business facilitated increased by 25% compared to the same period in 2015 primarily due to an increase in the extractive sector as well as foreign exchange translation.

Business facilitated within our credit insurance program decreased by 4% primarily due to the impact of a large policy that was not renewed in 2016. The effect of this decline was partly mitigated by increased activity with other customers.

Business facilitated with small and medium-sized enterprises was $7.9 billion for the first six months of 2016, an increase of $1.2 billion when compared with the same period in 2015.

	For the six months ended	
(in millions of Canadian dollars)	**Jun 2016**	Jun 2015
Business Facilitated		
Direct lending	**11,265**	9,265
Project finance	**1,741**	1,177
Loan guarantees	**742**	488
Investments	**140**	159
Total financing and investments	**13,888**	11,089
Credit insurance	**27,901**	29,132
Financial institutions insurance	**3,674**	2,958
Contract insurance and bonding	**2,268**	2,322
Political risk insurance	**1,696**	1,945
Total insurance	**35,539**	36,357
Total business facilitated	**$49,427**	$47,446

SUMMARY OF FINANCIAL RESULTS

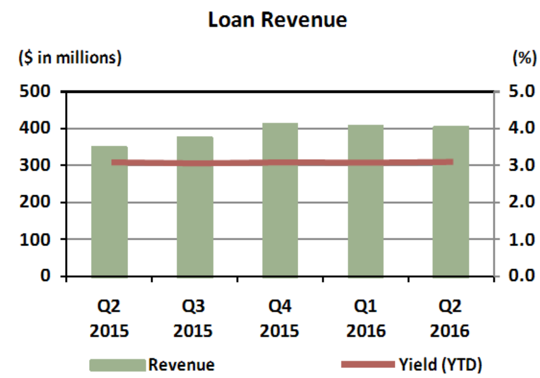
Financial Performance

	For the three months ended			For the six months ended	
(in millions of Canadian dollars)	**Jun 2016**	Mar 2016	Jun 2015	**Jun 2016**	Jun 2015
Net financing and investment income	**317**	329	319	**646**	638
Net insurance premiums and guarantee fees*	**60**	58	59	**118**	113
	377	387	378	**764**	751
Other (income) expenses	**(83)**	(57)	(49)	**(140)**	(123)
Administrative expenses	**91**	86	86	**177**	172
Provision for (reversal of) credit losses	**172**	87	(6)	**259**	16
Claims-related expenses	**16**	24	16	**40**	34
Net income	**$181**	$247	$331	**$428**	$652
Period average U.S.$ equivalent of CAD 1.00	**0.78**	0.73	0.81	**0.75**	0.81

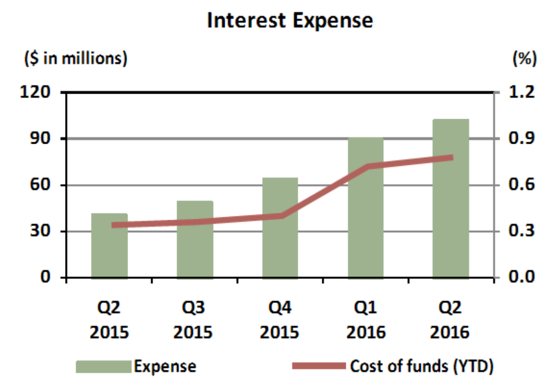
* *Includes loan guarantee fees.*

While net revenue from operations remained stable between reporting periods, we experienced fluctuations in our net income. These fluctuations were largely caused by changes in provisioning requirements and volatility in 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.

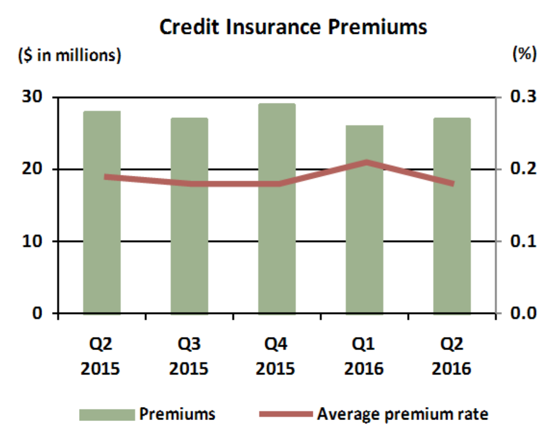
Loan revenue and yield remained consistent when compared to the prior quarter.



Interest expense increased during the first six months of 2016 mainly as a result of higher cost of funds and funding requirements. The majority of our funding is floating rate and denominated in U.S. dollars, consistent with our assets. During the first six months of 2016, short-term U.S. dollar rates increased, resulting in higher cost of funds. Refer to Note 14 for further details.



The credit insurance portfolio experienced a decrease in the average premium rate in the second quarter of 2016 mainly due to an increase in activity in higher volume accounts with lower premium rates.

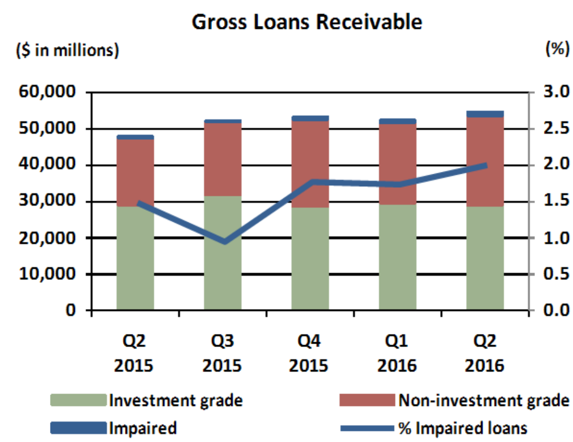


Financial Position

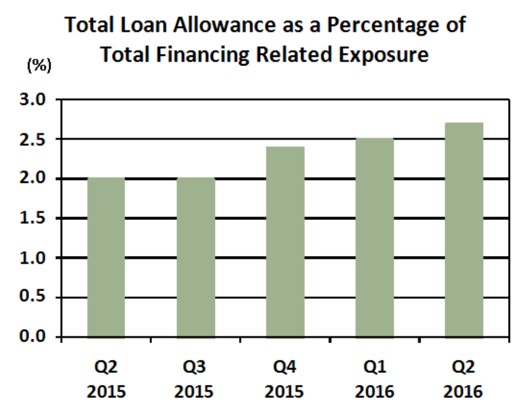
As at *(in millions of Canadian dollars)*	**Jun 2016**	Mar 2016	Dec 2015	Jun 2015
Total assets	**61,241**	59,821	60,969	55,044
Total liabilities	**52,251**	50,933	51,804	46,157
Equity	**8,990**	8,888	9,165	8,887
Gross loans receivable	**54,673**	52,424	53,326	47,979
Total allowances	**2,471**	2,334	2,384	1,865
Period-end U.S.$ equivalent of CAD 1.00	**0.77**	0.77	0.72	0.80

The decline in equity since December 2015 is due to the payment of a dividend of $500 million to the Government of Canada in the first half of 2016.

Gross loans receivable increased in the second quarter primarily due to net loan disbursements. Impaired loans as a percentage of gross loans receivable increased in the second quarter of 2016 mainly due to impairments in our telecom and aerospace portfolios.



Total loan allowance as a percentage of total financing related exposure has increased since the third quarter of 2015 primarily due to downward credit migration in the extractive sector.



Impact of Foreign Exchange Translation on Financial Results

Our foreign currency-denominated results are impacted by exchange rate fluctuations. The Canadian dollar at the end of the second quarter was consistent with the end of the prior quarter; however, the stronger average exchange rate for the quarter had an unfavourable impact on our second quarter financial results. The following table reflects the estimated impact on our financial results had the Canadian dollar remained stable relative to the U.S. dollar:

	Compared to the three months ended		Compared to the six months ended
(in millions of Canadian dollars)	Mar 2016	Jun 2015	Jun 2015
Financial Results			
Increase (decrease) in comprehensive income	13	(9)	(33)
Increase (decrease) in business facilitated	1,514	(1,028)	(2,805)

	Compared to		
(in millions of Canadian dollars)	Mar 2016	Dec 2015	Jun 2015
Financial Position			
Increase (decrease) in loans receivable	206	3,203	(1,536)
Increase (decrease) in loans payable	224	3,494	(1,675)

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 69-77 of our 2015 Annual Report. Refer to Note 12 of the accompanying financial statements for details on financial instrument risks.

SECOND QUARTER HIGHLIGHTS

Net income was $181 million, a decrease of $66 million when compared to the previous quarter primarily due to higher loan provisioning requirements.

	Three months ended	
(in millions of Canadian dollars)	**Jun 2016**	Mar 2016
Income before provisions and claims-related expenses	**369**	358
Provision for credit losses	**172**	87
Claims-related expenses	**16**	24
Net income	**$181**	$247

Provision for credit losses was $172 million, an increase of $85 million when compared to the prior quarter. The $172 million provision is mainly due to downward credit migration in the aerospace and telecom portfolios tempered by the removal of the market overlay. The market overlay was established at the end of 2015 to reflect the elevated risk in the extractive sector. The overlay has now been fully removed as the remaining obligors have been rerated. Refer to Note 4 for further details. In the first quarter of 2016, we recorded a provision of $87 million primarily due to the impact of the decline in the value of collateral associated with our secured aerospace portfolio used in the allowance calculation. The collateral values were adjusted to reflect the age of the aircraft and other market conditions.

Other items of note in the second quarter:

Impaired loans increased by $299 million mainly due to the impairment of one obligor in the telecom and media sector and one obligor in the aerospace sector partially offset by sovereign loans that returned to performing status during the second quarter.

FINANCIAL RESULTS – YEAR TO DATE

Prior Year Comparison

Net income for the first half of 2016 was $428 million, a decline from the $652 million reported for the same period in 2015 primarily due to higher provisions for credit losses in our loans portfolio.

Provision for credit losses was $259 million for the first half of 2016, an increase of $243 million from the prior year period. In 2016 the impact of the provision charge from loan disbursements exceeded the release of provisions due to repayments whereas in 2015 the opposite occurred. In addition, the impact of the reductions in the collateral values within our secured aerospace portfolio and downward credit migration were more significant in 2016.

Corporate Plan Comparison

Financial Performance

	Six months ended		Year ended
	Jun 2016	Jun 2016	Dec 2016
(in millions of Canadian dollars)	**Actual Results**	Corporate Plan	Corporate Plan
Net financing and investment income	**646**	574	1,146
Net insurance premiums and guarantee fees*	**118**	120	238
Other (income) expenses	**(140)**	(38)	(76)
Administrative expenses	**177**	188	400
Provision for credit losses	**259**	56	73
Claims-related expenses	**40**	40	80
Net income	**428**	448	907
Other comprehensive income (loss)	**(103)**	38	75
Comprehensive income	**$325**	$486	$982

**Includes loan guarantee fees.*

Net income for the first six months of 2016 was $20 million lower than the Corporate Plan primarily due to changes in provisioning requirements in our loans portfolio partly offset by increases in net financing and investment income and other income.

Provision for credit losses were $259 million for the first half of 2016, an increase of $203 million when compared to the Corporate Plan mainly due to reductions in the collateral values within our secured aerospace portfolio and downward credit migration which was more significant than projected in the Corporate Plan.

Net financing and investment income for the first six months of 2016 was $646 million, $72 million higher than the Corporate Plan. The variance is due to higher loan revenue on the float rate portfolio as a result of higher than anticipated loan disbursements and foreign exchange translation gains.

Other income was $140 million for the first six months of 2016, $102 million higher than the Corporate Plan. The variance is largely due to the volatility associated with our financial instruments carried at fair value. Due to the volatility and difficulty in estimating fair value gains or losses on financial instruments, a forecast for these items is not included in the Corporate Plan.

We recorded an **other comprehensive loss** of $103 million for the first six months of 2016 compared to other comprehensive income of $38 million in 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 it would increase. The decrease in discount rate is largely due to a reduction in available high-yielding long-dated instruments used to derive the discount rate.

Financial Position

As at *(in millions of Canadian dollars)*	**Jun 2016** **Actual Results**	Jun 2016 Corporate Plan	Dec 2016 Corporate Plan
Cash and marketable securities	**6,629**	5,976	5,856
Derivative instruments	**519**	449	449
Loans receivable	**54,520**	47,664	48,999
Allowance for losses on loans	**(1,872)**	(1,229)	(1,182)
Investments at fair value through profit or loss	**873**	796	809
Other assets	**572**	585	754
Total Assets	**$61,241**	$54,241	$55,685
Loans payable	**48,414**	41,872	43,001
Derivative instruments	**2,400**	2,287	2,287
Allowance for losses on loan commitments	**74**	48	46
Premium and claims liabilities	**609**	626	487
Other liabilities	**754**	562	522
Equity	**8,990**	8,846	9,342
Total Liabilities and Equity	**$61,241**	$54,241	$55,685

Loans receivable totalled $54.5 billion at June 30, 2016, $6.9 billion higher than Corporate Plan, primarily as a result of a weaker Canadian dollar than projected in the Plan and higher than anticipated net disbursements in the first six months of 2016.

Loans payable were $6.5 billion higher than the Corporate Plan as a result of foreign exchange translation and the funding required for the increase in loans receivable.

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 recoveries, 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 $34 million (2015 – $39 million) and an increase in actuarial liabilities of $6 million (2015 – $21 million increase). The claims ratio was higher in 2015 due to net claims paid of $29 million relating to losses in the resources sector.

	Six months ended	
(in millions of Canadian dollars)	**Jun 2016**	Jun 2015
Direct premiums	**49**	51
Reinsurance assumed	**2**	1
Reinsurance ceded	**(3)**	(3)
Net written premium	**$48**	$49
Direct net claims incurred	**40**	59
Net claims incurred – reinsurance assumed	**-**	1
Net claims incurred	**$40**	$60
Claims ratio %	**83.3%**	122.4%

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, 2016 and for the periods presented in the condensed consolidated quarterly financial statements.

Benoit Daignault,
President and CEO

Ken Kember,
Senior Vice-President & Chief Financial Officer

Ottawa, Canada
August 25, 2016

Export Development Canada
Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at

(in millions of Canadian dollars)

	Notes	**Jun 2016**	Mar 2016	Dec 2015	Jun 2015
Assets					
Cash		**103**	41	438	143
Marketable securities:					
At fair value through profit or loss		**6,526**	6,794	7,256	6,200
At amortized cost		**-**	-	-	90
Derivative instruments	6	**519**	375	350	449
Assets held-for-sale		**15**	15	15	19
Loans receivable	2,3	**54,520**	52,270	53,136	47,794
Allowance for losses on loans	4	**(1,872)**	(1,695)	(1,715)	(1,256)
Investments at fair value through profit or loss		**873**	866	848	769
Net investment in aircraft under finance leases		**-**	-	64	65
Recoverable insurance claims	5	**55**	54	54	33
Reinsurers' share of premium and claims liabilities	7	**103**	106	141	101
Other assets		**124**	722	110	370
Property, plant and equipment		**50**	51	53	53
Intangible assets		**81**	76	71	63
Building under finance lease		**144**	146	148	151
Total Assets		**$61,241**	$59,821	$60,969	$55,044
Liabilities and Equity					
Accounts payable and other credits		**108**	100	115	362
Dividend payable	9	**-**	500	-	-
Loans payable:					
Designated at fair value through profit or loss		**41,607**	39,830	39,291	35,260
At amortized cost		**6,807**	6,857	7,618	7,011
Derivative instruments	6	**2,400**	2,354	3,434	2,287
Obligation under finance lease		**160**	161	162	164
Retirement benefit obligations		**323**	240	225	231
Allowance for losses on loan commitments	4	**74**	107	113	50
Premium and claims liabilities	7	**609**	626	688	643
Loan guarantees		**163**	158	158	149
		52,251	50,933	51,804	46,157
Financing commitments (Note 2) and contingent liabilities (Note 8)					
Equity					
Share capital	9	**1,333**	1,333	1,333	1,333
Retained earnings		**7,657**	7,555	7,832	7,554
		8,990	8,888	9,165	8,887
Total Liabilities and Equity		**$61,241**	$59,821	$60,969	$55,044

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 25, 2016.

Herbert M. Clarke
Director

Benoit Daignault
Director

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

	Notes	For the three months ended Jun 2016	Mar 2016	Jun 2015	For the six months ended Jun 2016	Jun 2015
Financing and investment revenue:						
Loan	13	**406**	408	350	**814**	687
Finance lease		**-**	1	2	**1**	3
Marketable securities		**18**	18	13	**36**	27
Investments		**1**	2	1	**3**	2
Total financing and investment revenue		**425**	429	366	**854**	719
Interest expense	14	**102**	90	41	**192**	70
Leasing and financing related expenses		**6**	10	6	**16**	11
Net Financing and Investment Income		**317**	329	319	**646**	638
Loan Guarantee Fees		**10**	10	10	**20**	19
Insurance premiums and guarantee fees		**55**	55	55	**110**	106
Reinsurance assumed		**2**	2	2	**4**	4
Reinsurance ceded		**(7)**	(9)	(8)	**(16)**	(16)
Net Insurance Premiums and Guarantee Fees	15	**50**	48	49	**98**	94
Other (Income) Expenses	18	**(83)**	(57)	(49)	**(140)**	(123)
Administrative Expenses	19	**91**	86	86	**177**	172
Income before Provision and Claims-Related Expenses		**369**	358	341	**727**	702
Provision for (Reversal of) Credit Losses	16	**172**	87	(6)	**259**	16
Claims-Related Expenses	17	**16**	24	16	**40**	34
Net Income		**181**	247	331	**428**	652
Other comprehensive income (loss):						
Pension plan re-measurement		**(79)**	(24)	29	**(103)**	19
Comprehensive Income		**$102**	$223	$360	**$325**	$671

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 2016**	Mar 2016	Jun 2015	**Jun 2016**	Jun 2015
Share Capital	9	**1,333**	1,333	1,333	**1,333**	1,333
Retained Earnings						
Balance beginning of period		**7,555**	7,832	7,194	**7,832**	6,883
Net income		**181**	247	331	**428**	652
Other comprehensive income (loss)						
Pension plan re-measurement		**(79)**	(24)	29	**(103)**	19
Dividends	9	**-**	(500)	-	**(500)**	-
Balance end of period		**7,657**	7,555	7,554	**7,657**	7,554
Total Equity at End of Period		**$8,990**	$8,888	$8,887	**$8,990**	$8,887

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

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

	For the three months ended			For the six months ended	
	Jun 2016	Mar 2016	Jun 2015	**Jun 2016**	Jun 2015
Cash Flows from (used in) Operating Activities					
Net income	**181**	247	331	**428**	652
Adjustments to determine net cash from (used in) operating activities					
Provision for (reversal of) credit losses	**172**	87	(6)	**259**	16
Actuarial change in the net allowance for claims on insurance	**(9)**	4	(1)	**(5)**	(9)
Depreciation and amortization	**8**	8	8	**16**	15
Realized (gains) and losses	**(4)**	4	(88)	**-**	(95)
Changes in operating assets and liabilities					
Change in accrued interest and fees receivable	**(25)**	(56)	(2)	**(81)**	(25)
Change in fair value of marketable securities	**(23)**	(66)	29	**(89)**	5
Change in fair value of loans payable	**31**	190	(58)	**221**	15
Change in derivative instruments	**(144)**	(248)	81	**(392)**	56
Other	**654**	(616)	619	**38**	(38)
Loan disbursements	**(7,383)**	(5,368)	(4,667)	**(12,751)**	(9,099)
Loan repayments and principal recoveries from loan asset sales	**4,640**	3,218	3,108	**7,858**	6,061
Net cash used in operating activities	**(1,902)**	(2,596)	(646)	**(4,498)**	(2,446)
Cash Flows from (used in) Investing Activities					
Disbursements for investments	**(43)**	(51)	(41)	**(94)**	(109)
Receipts from investments	**30**	23	97	**53**	114
Finance lease repayments	**-**	4	6	**4**	8
Purchases of marketable securities at fair value through profit or loss	**(15,466)**	(18,442)	(15,571)	**(33,908)**	(32,181)
Sales/maturities of marketable securities at fair value through profit or loss	**15,732**	18,556	15,506	**34,288**	32,757
Purchases of marketable securities at amortized cost	**-**	-	(5)	**-**	(15)
Sales/maturities of marketable securities at amortized cost	**-**	-	5	**-**	15
Receipts from sale of assets held-for-sale	**-**	-	67	**-**	67
Net cash from investing activities	**253**	90	64	**343**	656
Cash Flows from (used in) Financing Activities					
Issue of long-term loans payable - designated at fair value through profit or loss	**3,763**	3,992	2,559	**7,755**	6,393
Repayment of long-term loans payable - designated at fair value through profit or loss	**(1,118)**	(2,910)	(2,772)	**(4,028)**	(5,741)
Issue of long-term loans payable at amortized cost	**-**	-	(11)	**-**	1,168
Repayment of long-term loans payable at amortized cost	**11**	(344)	-	**(333)**	-
Issue of short-term loans payable - designated at fair value through profit or loss	**10,318**	10,044	6,949	**20,362**	11,060
Repayment of short-term loans payable - designated at fair value through profit or loss	**(10,669)**	(8,360)	(6,021)	**(19,029)**	(11,020)
Disbursements from sale/maturity of derivative instruments	**(79)**	(309)	-	**(388)**	-
Receipts from sale/maturity of derivative instruments	**-**	-	1	**-**	1
Dividend paid	**(500)**	-	-	**(500)**	-
Net cash from financing activities	**1,726**	2,113	705	**3,839**	1,861
Effect of exchange rate changes on cash	**(15)**	(4)	2	**(19)**	3
Net increase (decrease) in cash	**62**	(397)	125	**(335)**	74
Cash					
Beginning of period	**41**	438	18	**438**	69
End of period	**$103**	$41	$143	**$103**	$143
Operating Cash Flows from Interest					
Cash paid for interest on loans payable	**$102**	$61	$51	**$163**	$82
Cash received for interest on currency swaps related to capital	**$2**	$7	$13	**$9**	$29
Cash received for interest on loan assets and marketable securities	**$385**	$378	$335	**$763**	$645

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

Notes to the Condensed Consolidated Financial Statements

1. Significant Accounting Policies

Basis of Presentation

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

These condensed interim consolidated financial statements follow the same accounting policies and methods of computation as our audited consolidated financial statements for the year ended December 31, 2015. They should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015 and the accompanying notes as set out on pages 92-141 of our 2015 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 2016.

(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 and the Disclosure Initiative. Revisions to standards as a result of these ongoing projects could potentially have a significant impact on EDC's financial statements in future years.

Use of Estimates and Key Judgments

The preparation of financial statements requires the use of estimates and key judgments. Judgment is required in the selection of accounting policies, and their application requires the use of estimates and assumptions to arrive at the reported carrying values of our assets and liabilities. Areas where management has made use of significant estimates and exercised judgment include the allowance for losses on loans, loan commitments and loan guarantees, assets held-for-sale, premium and claims liabilities, recoverable insurance claims, retirement benefit obligations and financial instruments measured at fair value. Refer to page 93 of our 2015 Annual Report for details.

2. Loans Receivable

(in millions of Canadian dollars)	**Jun 2016**	Mar 2016	Dec 2015	Jun 2015
Performing:				
Past due	**41**	16	21	23
Current year and beyond	**53,424**	51,499	52,362	47,244
Performing gross loans receivable	**53,465**	51,515	52,383	47,267
Individually impaired loans (Note 3)	**1,208**	909	943	712
Gross loans receivable	**54,673**	52,424	53,326	47,979
Accrued interest and fees receivable	**213**	211	200	188
Deferred loan revenue and other credits	**(366)**	(365)	(390)	(373)
Total loans receivable	**$54,520**	$52,270	$53,136	$47,794

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

(in millions of Canadian dollars)		**Jun 2016**		Mar 2016		Dec 2015		Jun 2015
	$	**% of total**	$	% of total	$	% of total	$	% of total
Investment grade	**28,830**	**53**	29,435	56	28,505	53	28,811	60
Non-investment grade	**24,635**	**45**	22,080	42	23,878	45	18,456	38
Individually impaired loans (Note 3)	**1,208**	**2**	909	2	943	2	712	2
Total gross loans receivable	**$54,673**	**100**	$52,424	100	$53,326	100	$47,979	100

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

(in millions of Canadian dollars)	**Jun 2016**	Jun 2015
Balance at January 1	**53,326**	41,791
Disbursements	**12,751**	9,099
Principal repayments	**(7,683)**	(6,011)
Principal recoveries from loan asset sales	**(175)**	(50)
Financing on sale of assets held-for-sale	**-**	325
Loans written off	**(18)**	(5)
Foreign exchange translation	**(3,538)**	2,820
Capitalized interest	**10**	10
Balance at June 30	**$54,673**	$47,979

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

(in millions of Canadian dollars)	**Jun 2016**	Mar 2016	Dec 2015	Jun 2015
Signed loan commitments	**15,223**	18,809	19,928	16,957
Letters of offer	**3,769**	3,624	3,007	1,868
Unallocated confirmed lines of credit	**137**	127	109	126
Total financing commitments	**$19,129**	$22,560	$23,044	$18,951

3. Individually Impaired Loans

(in millions of Canadian dollars)	**Jun 2016**	Mar 2016	Dec 2015	Jun 2015
Gross loans receivable				
Commercial	**1,175**	803	833	608
Sovereign	**33**	106	110	104
	1,208	909	943	712
Less: Deferred loan revenue and other credits	**22**	37	42	47
Individual allowance	**728**	536	553	377
Carrying amount of individually impaired loans	**$458**	$336	$348	$288

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

(in millions of Canadian dollars)	**Jun 2016**	Jun 2015
Balance at January 1	**943**	660
Loans classified as impaired	**470**	43
Disbursements on loan guarantees called	**1**	6
Capitalized interest	**1**	4
Loans written off	**(14)**	(3)
Loans reinstated to performing	**(60)**	(2)
Principal repayments	**(67)**	(35)
Foreign exchange translation	**(66)**	39
Balance at June 30	**$1,208**	$712

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 2016**	Mar 2016	Dec 2015	Jun 2015
Base allowance				
Investment grade exposure	**131**	127	125	138
Non-investment grade exposure	**1,139**	981	931	832
Total base allowance	**1,270**	1,108	1,056	970
Counterparty concentration overlay				
Investment grade exposure	**8**	7	9	16
Non-investment grade exposure	**26**	12	36	27
Total counterparty concentration overlay	**34**	19	45	43
Extractive market overlay	**-**	222	265	-
Total collective allowance*	**1,304**	1,349	1,366	1,013
Allowance for individually impaired loans, loan commitments and loan guarantees	**743**	550	565	390
Total allowance for losses on loans, loan commitments and loan guarantees	**$2,047**	$1,899	$1,931	$1,403

* *Includes allowance on finance leases which was nil at June 2016 (March 2016 – nil, December 2015 – $1 million and June 2015 – $1 million) and allowance on other receivables of $6 million (March 2016 – $7 million, December 2015 – $4 million and June 2015 – nil).*

During 2015, a fundamental shift occurred in the extractive sector as demand for commodities dropped, which resulted in a rapid and sustained decline of their prices. In consideration of the elevated risk associated with obligors in the extractive sector and the concern that current credit ratings may not reflect the impact of recent market events, we established a market overlay at the end of 2015 as a component of our collective allowance. As market conditions stabilized and updated financial information became available in the first half of 2016, credit ratings were updated, the impact was reflected in the base allowance and the extractive market overlay was fully removed. The updated credit ratings reflect all information available at the time of rerating. Had the updated ratings been in effect at the end of 2015, the December allowance would have been $57 million lower.

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

(in millions of Canadian dollars)	**Jun 2016**	Mar 2016	Dec 2015	Jun 2015
Allowance for losses on loans	**1,872**	1,695	1,715	1,256
Allowance for losses on loan commitments	**74**	107	113	50
Allowance for losses on loan guarantees*	**101**	97	103	97
Total	**$2,047**	$1,899	$1,931	$1,403

* *Included in the liability for loan guarantees.*

For the six months ended June 2016, changes to the allowance for losses on loans, loan commitments and loan guarantees were as follows:

(in millions of Canadian dollars)	**Collective**	**Individual**	**Jun 2016 Total**	Collective	Individual	Jun 2015 Total
Balance at beginning of year	**1,366**	**565**	**1,931**	945	363	1,308
Provision for credit losses on loans, loan commitments and loan guarantees	**25**	**234**	**259**	8	8	16
Write-offs	**-**	**(14)**	**(14)**	-	(3)	(3)
Recovery of amounts written-off in prior years	**-**	**-**	**-**	-	1	1
Foreign exchange translation	**(87)**	**(42)**	**(129)**	60	21	81
Total	**$1,304**	**$743**	**$2,047**	$1,013	$390	$1,403

5. Recoverable Insurance Claims

(in millions of Canadian dollars)	**Jun 2016**	Jun 2015
Balance at January 1	**54**	33
Claims paid	**54**	50
Claims paid – reinsured policies	**-**	1
Claims recovered	**(6)**	(10)
Change in recoverable portion of cumulative claims paid	**(44)**	(42)
Foreign exchange translation	**(3)**	1
Balance at June 30	**$55**	$33

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 111 of the 2015 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, 2016, we held derivatives with no counterparties that have a rating below this requirement (June 2015 – three counterparties with a combined negative fair value of $56 million).

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

(in millions of Canadian dollars)			**Jun 2016**			Dec 2015			Jun 2015
	Positive	**Negative**	**Total**	Positive	Negative	Total	Positive	Negative	Total
Cross currency interest rate swaps	**181**	**2,254**	**(2,073)**	121	3,314	(3,193)	269	2,233	(1,964)
Interest rate swaps	**295**	**92**	**203**	127	59	68	141	16	125
Foreign exchange swaps	**42**	**54**	**(12)**	102	61	41	39	31	8
Credit default swaps – protection purchased	**-**	**-**	**-**	-	-	-	-	6	(6)
Foreign exchange forwards	**1**	**-**	**1**	-	-	-	-	1	(1)
Total derivative instruments	**519**	**2,400**	**(1,881)**	350	3,434	(3,084)	449	2,287	(1,838)
Impact of netting agreements	**(288)**	**(288)**	**-**	(110)	(110)	-	(221)	(221)	-
Total	**$231**	**$2,112**	**$(1,881)**	$240	$3,324	$(3,084)	$228	$2,066	$(1,838)
Applicable collateral			**(22)**			(68)			(67)
Net amount			**$(1,903)**			$(3,152)			$(1,905)

7. Premium and Claims Liabilities

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

(in millions of Canadian dollars)				**Jun 2016**				Mar 2016				Dec 2015				Jun 2015
	CI*	**CIB**	**PRI**	**Total**	CI*	CIB	PRI	Total	CI*	CIB	PRI	Total	CI*	CIB	PRI	Total
Insurance	**212**	**28**	**369**	**609**	203	43	380	626	212	32	444	688	150	46	447	643
Reinsurance	**(7)**	**(3)**	**(93)**	**(103)**	(9)	(3)	(94)	(106)	(13)	(1)	(127)	(141)	(2)	(1)	(98)	(101)
Net liability	**$205**	**$25**	**$276**	**$506**	$194	$40	$286	$520	$199	$31	$317	$547	$148	$45	$349	$542

* *Includes financial institutions insurance.*

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

(in millions of Canadian dollars)	**Jun 2016**	Mar 2016	Dec 2015	Jun 2015
Deferred insurance premiums	**113**	106	121	99
Allowance for claims on insurance	**496**	520	567	544
Total premium and claims liabilities	**609**	626	688	643
Reinsurers' share of allowance for claims on insurance	**(72)**	(85)	(114)	(82)
Prepaid reinsurance	**(31)**	(21)	(27)	(19)
Reinsurers' share of premium and claims liabilities	**(103)**	(106)	(141)	(101)
Net premium and claims liabilities	**$506**	$520	$547	$542

8. Contingent Liabilities

As explained on page 92 of the 2015 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 2016**	Mar 2016	Dec 2015	Jun 2015
Insurance in force:				
Credit insurance	**9,086**	9,260	9,390	9,074
Financial institutions insurance	**4,063**	3,863	4,872	3,211
Contract insurance and bonding	**7,728**	7,746	8,906	8,612
Political risk insurance	**1,278**	1,324	1,396	1,616
Reinsurance ceded*	**(250)**	(250)	(250)	(250)
Insurance in force	**21,905**	21,943	24,314	22,263
Loan guarantees	**2,384**	2,272	2,187	2,084
Total	**$24,289**	$24,215	$26,501	$24,347

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

9. Equity

EDC's authorized share capital is $3.0 billion consisting of 30 million shares with a par value of $100 each. The number of shares issued and fully paid is 13.3 million (2015 – 13.3 million). In the first quarter of 2016, we declared a dividend of $500 million which was paid to the Government of Canada in the second quarter (2015 – nil).

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 2016**	Mar 2016	Dec 2015	Jun 2015
Allowance for losses on loans	**1,872**	1,695	1,715	1,256
Allowance for losses on loan commitments	**74**	107	113	50
Allowance for losses on loan guarantees	**101**	97	103	97
Allowance for claims on insurance	**496**	520	567	544
Reinsurers' share of allowance for claims on insurance	**(72)**	(85)	(114)	(82)
Share capital	**1,333**	1,333	1,333	1,333
Retained earnings	**7,657**	7,555	7,832	7,554
Supply of capital	**$11,461**	$11,222	$11,549	$10,752

11. Fair Value of Financial Instruments

Fair value represents our estimation of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For a full description of our controls, policies and valuation techniques surrounding fair value of financial instruments refer to Note 27 on page 126 of the 2015 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 2016**		Mar 2016
	Carrying value	**Fair value**	Carrying value	Fair value
Assets				
Performing fixed rate loans*	**10,932**	**11,062**	10,803	10,760
Performing floating rate loans*	**41,264**	**41,311**	39,443	39,427
Total performing loans receivable*	**52,196**	**52,373**	50,246	50,187
Impaired loans*	**458**	**458**	336	336
Loans receivable and accrued interest and fees	**52,654**	**52,831**	50,582	50,523
Marketable securities at fair value through profit or loss	**6,526**	**6,526**	6,794	6,794
Derivative instruments	**519**	**519**	375	375
Investments at fair value through profit or loss	**873**	**873**	866	866
Recoverable insurance claims	**55**	**55**	54	54
Other assets	**124**	**132**	722	719
Liabilities				
Accounts payable and other credits	**108**	**113**	100	105
Dividend payable	**-**	**-**	500	500
Loans payable:				
Designated at fair value through profit or loss	**41,607**	**41,607**	39,830	39,830
At amortized cost	**6,807**	**6,810**	6,857	6,919
Derivative instruments	**2,400**	**2,400**	2,354	2,354
Loan guarantees	**163**	**119**	158	114

* *Balances are net of loan allowance.*

Unobservable Inputs – Investments at Fair Value Through Profit or Loss
In the process of assessing the fair value for certain investment instruments, estimates determined in a manner consistent with industry practice are employed in the models which cannot be directly observed in the market. EDC's unobservable estimates are outlined in the following table:

(in millions of Canadian dollars)

Valuation technique	**Unobservable input**	**Range (average)**	**Fair value at Jun 2016(1)**
Multiples	Multiple (Sales or EBITDA(2))	0.8 – 10.2 (5.6)	38
	Liquidity discount	25% – 25% (25%)	5
	Discount rate	25% – 40% (30%)	8
Discounted cash flows	Discount rate	0% – 1% (1%)	2

(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 2016**				Mar 2016
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Assets								
Performing fixed rate loans	**-**	**10,601**	**461**	**11,062**	-	10,254	506	10,760
Performing floating rate loans	**-**	**40,864**	**447**	**41,311**	-	38,863	564	39,427
Total performing loans receivable	**-**	**51,465**	**908**	**52,373**	-	49,117	1,070	50,187
Impaired loans	**-**	**458**	**-**	**458**	-	336	-	336
Loans receivable and accrued interest and fees	**-**	**51,923**	**908**	**52,831**	-	49,453	1,070	50,523
Marketable securities at fair value through profit or loss	**3,730**	**2,796**	**-**	**6,526**	3,650	3,144	-	6,794
Derivative instruments	**-**	**486**	**33**	**519**	-	342	33	375
Investments at fair value through profit or loss	**-**	**-**	**873**	**873**	1	-	865	866
Recoverable insurance claims	**-**	**-**	**55**	**55**	-	-	54	54
Other assets	**88**	**44**	**-**	**132**	676	43	-	719
Liabilities								
Accounts payable and other credits	**64**	**49**	**-**	**113**	54	51	-	105
Dividend payable	**-**	**-**	**-**	**-**	500	-	-	500
Loans payable:								
Designated at fair value through profit or loss	**-**	**41,471**	**136**	**41,607**	-	39,692	138	39,830
At amortized cost	**-**	**6,810**	**-**	**6,810**	-	6,919	-	6,919
Derivative instruments	**-**	**2,400**	**-**	**2,400**	-	2,354	-	2,354
Loan guarantees	**-**	**119**	**-**	**119**	-	114	-	114

The following table summarizes the reconciliation of Level 3 fair values between the beginning of the year and the end of the second quarter of 2016 for the financial instruments carried at fair value:

(in millions of Canadian dollars)					**Jun 2016**
	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	**54**	**847**	**(335)**	**83**	**649**
Increase in recoverable insurance claims	**4**	**-**	**-**	**-**	**4**
Change in accrued interest	**-**	**-**	**40**	**(40)**	**-**
Unrealized gains (losses) included in other (income) expenses	**-**	**14**	**8**	**(8)**	**14**
Purchases of assets/issuances of liabilities	**-**	**101**	**-**	**-**	**101**
Matured assets/liabilities	**-**	**-**	**133**	**-**	**133**
Return of capital	**-**	**(51)**	**-**	**-**	**(51)**
Foreign exchange translation	**(3)**	**(38)**	**18**	**(2)**	**(25)**
Balance at end of period	**$55**	**$873**	**$(136)**	**$33**	**$825**
Total gains (losses) for the first six months of 2016 included in comprehensive income for instruments held at the end of the quarter	**$4**	**$22**	**$(2)**	**$(1)**	**$23**

Changes in valuation methods may result in transfers into or out of Levels 1, 2 and 3. In the first six months of 2016, 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, 2016, a sensitivity analysis was performed using possible alternative assumptions to recalculate the fair value of our Level 3 financial instruments.

In order to perform our sensitivity analysis on our Level 3 loans payable and derivative assets, we adjusted the yield curve and volatility assumptions used to value them. The results of our analysis on our Level 3 loans payable ranged from an unfavourable change of $0.9 million to a favourable change of $2.3 million. On our Level 3 derivative assets the impact ranged from an unfavourable change of $1.1 million to a favourable change of $0.6 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 $47 million to a favourable change of $53 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 72 to 76 and notes related to our derivative instruments and debt instruments of the 2015 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 2016 Exposure**		Mar 2016 Exposure		Dec 2015 Exposure		Jun 2015 Exposure	
Country	**$**	**%**	$	%	$	%	$	%
United States	**17,750**	**27**	17,416	28	17,773	28	15,337	27
Canada	**8,529**	**13**	8,239	13	8,922	14	7,622	13
United Kingdom	**3,718**	**6**	3,818	6	3,981	6	3,637	6
Brazil	**3,289**	**5**	3,391	6	3,646	6	3,396	6
Australia	**3,222**	**5**	3,299	5	3,697	6	2,749	5
Mexico	**2,442**	**4**	2,486	4	2,550	4	2,444	4
India	**2,278**	**4**	2,006	3	1,859	3	1,518	3
Chile	**2,258**	**4**	2,070	3	2,193	3	2,176	4
Saudi Arabia	**2,215**	**3**	1,829	3	1,659	2	1,637	3
Germany	**1,573**	**2**	1,628	3	1,295	2	1,291	2
Other	**17,804**	**27**	16,590	26	16,830	26	15,907	27
Total	**$65,078**	**100**	$62,772	100	$64,405	100	$57,714	100

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

(in millions of Canadian dollars)	**Jun 2016 Exposure**		Mar 2016 Exposure		Dec 2015 Exposure		Jun 2015 Exposure	
Industry	**$**	**%**	$	%	$	%	$	%
Commercial:								
Extractive	**17,518**	**27**	16,480	26	16,770	26	15,695	27
Aerospace	**12,950**	**20**	12,933	21	13,695	21	13,016	23
Financial institutions	**7,376**	**11**	6,832	11	8,452	13	6,165	11
Surface transportation	**5,935**	**9**	5,943	9	5,828	9	5,353	9
Information and communication technologies	**5,859**	**9**	5,635	9	5,039	8	4,999	9
Infrastructure and environment	**4,515**	**7**	4,575	7	4,212	7	3,550	6
Other	**3,385**	**5**	3,086	5	3,312	5	2,775	5
Total commercial	**57,538**	**88**	55,484	88	57,308	89	51,553	90
Sovereign	**7,540**	**12**	7,288	12	7,097	11	6,161	10
Total	**$65,078**	**100**	$62,772	100	$64,405	100	$57,714	100

13. Loan Revenue

	Three months ended			Six months ended	
(in millions of Canadian dollars)	**Jun 2016**	Mar 2016	Jun 2015	**Jun 2016**	Jun 2015
Loan interest					
Floating rate	**260**	256	199	**516**	389
Fixed rate	**102**	106	100	**208**	204
Loan fee revenue	**38**	40	44	**78**	85
Impaired revenue	**4**	4	5	**8**	5
Other	**2**	2	2	**4**	4
Total loan revenue	**$406**	$408	$350	**$814**	$687

14. Interest Expense

	Three months ended			Six months ended	
(in millions of Canadian dollars)	**Jun 2016**	Mar 2016	Jun 2015	**Jun 2016**	Jun 2015
Loans payable designated at fair value through profit or loss and related derivatives					
Short-term payables	**31**	27	13	**58**	22
Long-term payables – floating	**57**	49	23	**106**	44
Long-term payables – fixed*	**(3)**	(3)	(4)	**(6)**	(8)
Loans payable carried at amortized cost					
Long-term payables – fixed	**20**	21	20	**41**	38
Total interest expense on loans payable and related derivatives	**105**	94	52	**199**	96
Interest income on currency swaps related to capital	**(3)**	(4)	(12)	**(7)**	(27)
Other	**-**	-	1	**-**	1
Total interest expense	**$102**	$90	$41	**$192**	$70

* *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:

(in millions of Canadian dollars)	Three months ended														
					Jun 2016					Mar 2016					Jun 2015
	CI	**FII**	**CIB**	**PRI**	**Total**	CI	FII	CIB	PRI	Total	CI	FII	CIB	PRI	Total
Direct premiums	**25**	**6**	**17**	**7**	**55**	26	5	16	8	55	27	5	15	8	55
Reinsurance assumed	**2**	**-**	**-**	**-**	**2**	-	-	1	1	2	1	-	1	-	2
Reinsurance ceded	**(2)**	**-**	**(1)**	**(4)**	**(7)**	(1)	-	(2)	(6)	(9)	(1)	(1)	(2)	(4)	(8)
Net insurance premiums and guarantee fees	**$25**	**$6**	**$16**	**$3**	**$50**	$25	$5	$15	$3	$48	$27	$4	$14	$4	$49

(in millions of Canadian dollars)	Six months ended									
					Jun 2016					Jun 2015
	CI	**FII**	**CIB**	**PRI**	**Total**	CI	FII	CIB	PRI	Total
Direct premiums	**51**	**11**	**33**	**15**	**110**	53	9	29	15	106
Reinsurance assumed	**2**	**-**	**1**	**1**	**4**	1	-	2	1	4
Reinsurance ceded	**(3)**	**-**	**(3)**	**(10)**	**(16)**	(3)	(1)	(4)	(8)	(16)
Net insurance premiums and guarantee fees	**$50**	**$11**	**$31**	**$6**	**$98**	$51	$8	$27	$8	$94

16. Provision for (Reversal of) Credit Losses

	Three months ended			Six months ended	
(in millions of Canadian dollars)	**Jun 2016**	Mar 2016	Jun 2015	**Jun 2016**	Jun 2015
Credit migration*	**143**	(2)	56	**141**	67
Changes in portfolio composition	**29**	98	(61)	**127**	(51)
Decreased (increased) concentration threshold	**-**	(9)	-	**(9)**	1
Other	**-**	-	(1)	**-**	(1)
Provision for (reversal of) credit losses	**$172**	$87	$(6)	**$259**	$16

* *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 2016**	Mar 2016	Jun 2015	**Jun 2016**	Jun 2015
Provision for (reversal of) credit losses on loans	**200**	89	(6)	**289**	19
Provision for (reversal of) losses on loan commitments	**(33)**	1	9	**(32)**	4
Provision for (reversal of) losses on loan guarantees	**5**	(3)	(9)	**2**	(7)
Provision for (reversal of) credit losses	**$172**	$87	$(6)	**$259**	$16

17. Claims-Related Expenses

	Three months ended			Six months ended	
(in millions of Canadian dollars)	**Jun 2016**	Mar 2016	Jun 2015	**Jun 2016**	Jun 2015
Claims paid	**29**	25	18	**54**	50
Claims paid – reinsured policies	**-**	-	1	**-**	1
Claims recovered	**(2)**	(4)	(3)	**(6)**	(10)
Actuarial increase (decrease) in the net allowance for claims on insurance	**(9)**	4	(1)	**(5)**	(9)
(Increase) decrease in recoverable insurance claims	**(2)**	(2)	-	**(4)**	1
Claims handling expenses	**-**	1	1	**1**	1
Total claims-related expenses	**$16**	$24	$16	**$40**	$34

18. Other (Income) Expenses

	Three months ended			Six months ended	
(in millions of Canadian dollars)	**Jun 2016**	Mar 2016	Jun 2015	**Jun 2016**	Jun 2015
Net unrealized (gain) loss on derivatives related to loans payable	**(73)**	(183)	100	**(256)**	36
Net unrealized (gain) loss on loans payable designated at fair value through profit or loss	**38**	198	(87)	**236**	(42)
Net realized and unrealized (gain) loss on marketable securities at fair value through profit or loss	**(27)**	(71)	25	**(98)**	(2)
Net realized and unrealized (gain) loss on investments at fair value through profit or loss	**3**	(25)	(37)	**(22)**	(53)
(Gain) loss on sale of aircraft	**-**	23	(45)	**23**	(45)
Other	**(24)**	1	(5)	**(23)**	(17)
Total other (income) expenses	**$(83)**	$(57)	$(49)	**$(140)**	$(123)

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, 2016, the net unrealized gain on our loans payable and derivatives totalled $35 million compared to a net unrealized loss of $15 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, 2016, the credit adjusted rates relevant to the valuation of derivatives had larger decreases than the rates applicable to loans payable, leading to larger gains on our derivatives than losses 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, 2016, the net realized and unrealized gain on marketable securities was $27 million compared to a gain of $71 million for the previous quarter, which is a reflection of the continued decrease in long-term U.S. Treasury rates.

19. Administrative Expenses

	Three months ended			Six months ended	
(in millions of Canadian dollars)	**Jun 2016**	Mar 2016	Jun 2015	**Jun 2016**	Jun 2015
Salaries and benefits	**48**	46	43	**94**	88
Pension, other retirement and post-employment benefits	**12**	12	14	**24**	27
Occupancy	**6**	7	6	**13**	13
Amortization and depreciation	**6**	6	6	**12**	12
Marketing and communications	**3**	4	5	**7**	9
Other	**16**	11	12	**27**	23
Total administrative expenses	**$91**	$86	$86	**$177**	$172

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 2016**	Mar 2016	Jun 2015	**Jun 2016**	Jun 2015
Pension benefit expense	**9**	8	9	**17**	18
Other post-employment benefit and severance expense	**3**	4	5	**7**	9
	$12	$12	$14	**$24**	$27

20. Related Party Transactions

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

Mandate

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. Our knowledge and partnerships are used by more than 7,300 Canadian companies and their global customers in more than 140 markets worldwide each year. A Crown corporation accountable to Parliament through the Minister of International Trade, we are financially self-sustaining and a recognized leader in financial reporting and economic analysis.

Canada

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