Adapting to the New Reality

Quarterly Financial Report September 30, 2013
Unaudited

Canada

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 to Canadian exporters, investors and their international buyers. We are placing 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.

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

Economic Environment

The third quarter of 2013 saw a significant improvement in global economic conditions, as U.S. GDP growth accelerated, the Eurozone finally emerged from recession, and Japan's second quarter growth was revised up to 3.8%.

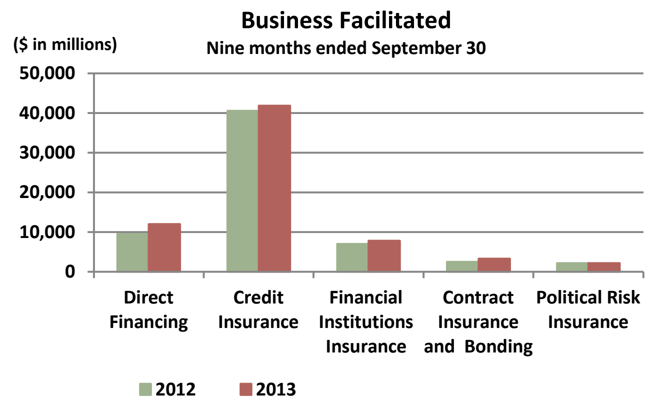
For the first time since 2008, U.S. consumer confidence broke out of recessionary levels, as the U.S. housing sector and a healthy jobs market continued to support strong spending by U.S. consumers. At the same time, Europe reported second quarter GDP growth of 0.3% after six consecutive quarters of decline; welcome news for a troubled continent that takes some of the pressure off the European financial system. In Japan, a large increase in capital expenditures pushed GDP growth to the 4% range for the second quarter in a row, underscoring the strong recovery in the world's third largest economy.

However, global financial markets were unsettled by significant volatility, as investor concerns about the imminent withdrawal of quantitative easing pulled liquidity away from emerging market currencies and many commodities. Markets were further impacted by fears over the economic impact of the U.S. Government shut-down and, much worse, the possibility of a U.S. default if the U.S. Treasury breached the debt ceiling and was unable to borrow. The International Monetary Fund warned that a default would have severe consequences for the global economy. Emerging market growth slowed marginally in the last quarter, with China and India set to grow by 7.5% and 5% respectively, in 2013.

For Canadian exporters, this means that exports should grow by 5% this year, a downward revision from the 7% EDC had forecast in the summer. This is the result of weaker prices for key commodities, particularly precious metals and, to a lesser extent, energy. The Canadian dollar is forecast to average U.S. $0.98 this year, before declining to U.S. $0.97 cents in 2014, and the dollar's strength will continue to challenge certain sectors such as the automotive industry. However, a stronger U.S. economy and a recovering Europe will provide a much-needed boost to Canadian exports in 2014.

Business Facilitated

Business facilitated has experienced growth of 9% for the first nine months of 2013. We experienced a relatively high demand for financing, particularly in the extractive and transportation sectors. The increase in the extractive sector is, in part, due to a shift in timing, as a few significant deals were delayed in 2012 and signed in the first half of 2013. Market conditions are also contributing to the increased financing demand in 2013. The current low interest rate environment is making it attractive for companies to borrow for expanding operations, purchasing equipment and inventory, increasing working capital as well as refinancing.



SUMMARY OF FINANCIAL RESULTS

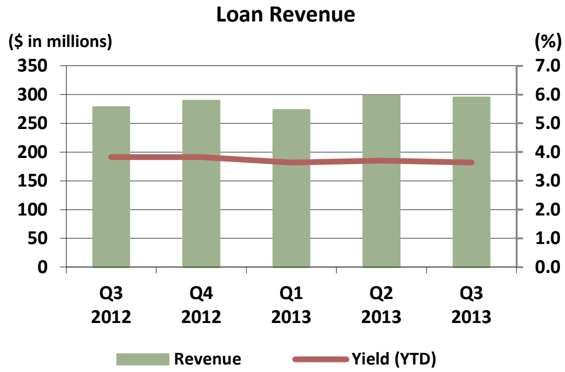
Financial Performance

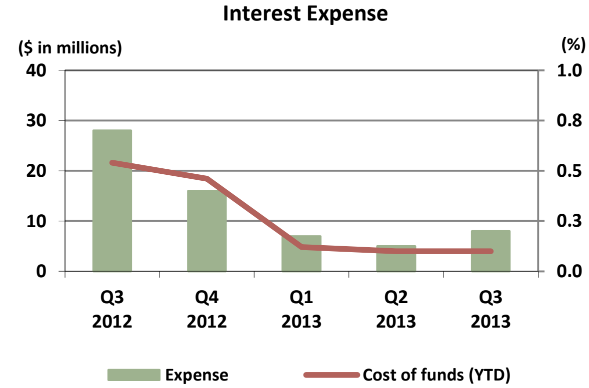
	For the three months ended			For the nine months ended	
(in millions of Canadian dollars)	**Sept 2013**	Jun 2013	Sept 2012 (restated)[2]	**Sept 2013**	Sept 2012 (restated)[2]
Net financing and investment income	**301**	311	258	**884**	762
Net insurance premiums and guarantee fees[(1)]	**57**	60	58	**173**	179
	358	371	316	**1,057**	941
Other expenses	**(3)**	(59)	(44)	**(86)**	(53)
Administrative expenses	**74**	77	75	**226**	228
Provision for (reversal of) credit losses	**99**	(132)	(40)	**(7)**	(280)
Claims-related expenses (recovery)	**(2)**	102	12	**112**	94
Net income	**$184**	$265	$225	**$640**	$846

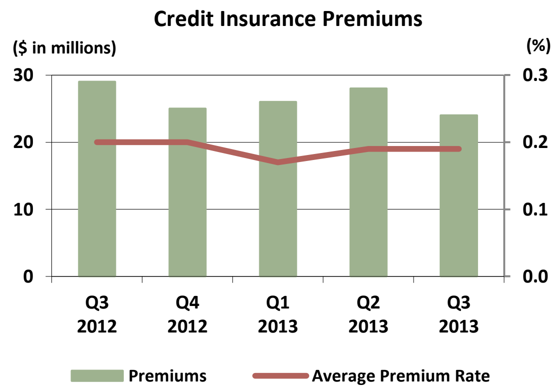
(1) *Includes loan guarantee fees*

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

Changes in provisioning requirements and claims-related expenses (recovery) between reporting periods have caused fluctuations in our net income. These changes are further discussed beginning on page 6. In addition, we have seen volatility in the fair values of our financial instruments between periods. These fluctuations are driven by market conditions, the impact of which is included in other expenses.







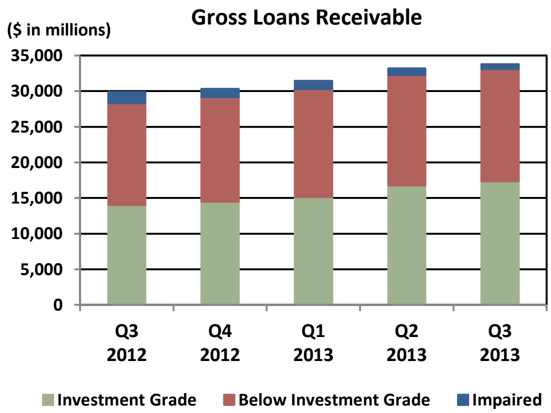
Financial Position

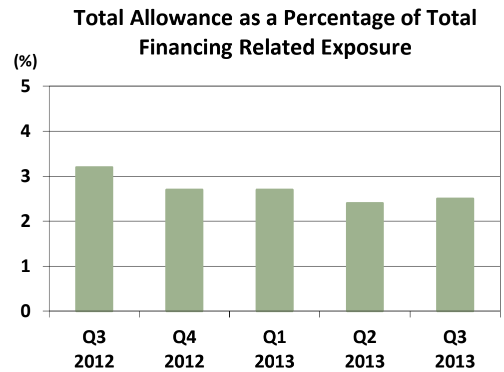
as at *(in millions of Canadian dollars)*	**Sept 2013**	Jun 2013	Dec 2012 (restated)*	Sept 2012 (restated)*
Total assets	**40,677**	39,105	36,233	35,807
Total liabilities	**32,526**	31,198	27,358	27,464
Equity	**8,151**	7,907	8,875	8,343
Gross loans receivable	**33,781**	33,211	30,336	29,893
Total allowances	**1,812**	1,755	1,743	2,229

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

Impact of Foreign Exchange Translation on Financial Results

Our assets and liabilities are primarily denominated in U.S. dollars and are translated into Canadian dollars at rates prevailing at the statement of financial position date. At the end of the third quarter, the Canadian dollar had strengthened relative to the U.S. dollar, resulting in a rate of U.S. $0.97 on September 30, 2013 compared to U.S. $0.95 at June 30, 2013 which resulted in a decrease in our assets and liabilities quarter over quarter. Alternatively, when comparing year over year, the Canadian dollar has weakened relative to the U.S. dollar which was U.S. $1.02 at September 30, 2012 which resulted in an increase in our assets and liabilities.





Risk Management

Our business activities expose us to a wide variety of risks including strategic, financial and operational risks. Our ability to manage these risks, a key competency within the organization, is supported by a strong risk culture and an effective risk management approach. We manage our risks by seeking to ensure that business activities and transactions provide an appropriate balance of return for the risks assumed and remain within our risk appetite. Refer to Note 12 of the accompanying financial statements for details on financial instrument risks.

During the third quarter, one of our largest impaired obligors, American Airlines, Inc., was returned to performing status thereby significantly reducing EDC's impaired loan portfolio. Although American Airlines, Inc. has not yet emerged from bankruptcy protection, it has remained current on its contractual loan payments to EDC and its financial position has improved.

THIRD QUARTER HIGHLIGHTS

Net income declined $81 million to $184 million for the third quarter of 2013. An increase in provision requirements was the primary contributor to the decrease in net income. The decrease was tempered by a reduction in claims-related expenses as well as fluctuations in the fair value of our financial instruments.

	Three months ended	
(in millions of Canadian dollars)	**Sept 2013**	Jun 2013
Income before provisions and claims-related expenses	**281**	235
Provision for (reversal of) credit losses	**99**	(132)
Claims-related expenses (recovery)	**(2)**	102
Net income	**$184**	$265

Provisions for credit losses increased by $231 million in the third quarter when compared to the previous quarter mainly the result of downward credit migration. In the third quarter there was a $90 million provision charge related to credit migration mainly due to new impairments in the aerospace sector and increases in the specific allowance for existing impaired loans in the infrastructure and environment sector whereas in the second quarter there was a release of provision of $87 million as a result of positive credit migration. Refer to Note 16 for further details.

Claims-related expenses decreased by $104 million compared to the previous quarter. This quarter there was an actuarial decrease of $27 million in the net allowance for claims on insurance primarily due to changes in portfolio composition for the political risk insurance program and a decrease in potential claims within our contract insurance and bonding program. In comparison there was an actuarial increase of $54 million for the previous quarter mainly the result of updated assumptions used in the calculation of the allowance.

FINANCIAL RESULTS – YEAR TO DATE

Prior Year Comparison

We finished the first nine months of 2013 with net income of $640 million, $206 million lower than the net income reported for the same period in 2012. The decline is primarily due to higher provisions for credit losses in our loans portfolio. In addition, we experienced variances in other items which are also explained below.

We had a **reversal of provision for credit losses** of $7 million for the first nine months of 2013, compared to a provision reversal of $280 million for the same period in 2012. Updates to independent variables used in the provisioning methodology were the main contributing factors to the variance in the provision for credit losses. In 2013, updates to collateral values related to our secured aerospace portfolio resulted in a more significant requirement for provision when compared to the prior year. In 2012, updated probability of default and loss given default rates resulted in a reversal of provisions which were not a factor in 2013. Refer to Note 16 for further details.

Loan revenue was $866 million for the first nine months of 2013, $39 million higher than the same period in 2012. This increase is mainly from higher loan fee revenue due to both larger portfolio exposure as well as other events, such as loan prepayments, that allow for the immediate recognition of deferred revenue.

Operating lease revenue was $38 million, $28 million higher than the same period in 2012. At the end of the third quarter in 2013, EDC had 52 aircraft subject to operating leases, compared to 25 aircraft in 2012. The increased leasing portfolio is due to aircraft that were returned to EDC as a result of loan foreclosures during late 2012 and were subsequently leased out. Refer to Note 5 for further details.

Interest expense was $20 million for the first nine months of 2013, compared to $92 million for the same period in 2012. The lower expense is primarily due to rates resetting to lower levels since the last quarter of 2012. Also contributing to this variance is a $35 million reduction in expense due to the maturity of a higher cost fixed rate bond in the last quarter of 2012.

Other expenses were $86 million compared to $53 million for the same period in 2012. The variance is largely due to the volatility associated with our financial instruments carried at fair value. Refer to Note 18 for further details.

Corporate Plan Comparison

Financial Performance

(in millions of Canadian dollars)	Nine months ended **Sept 2013** **Actual Results**	 Sept 2013 Corporate Plan	Year ended Dec 2013 Corporate Plan
Net financing and investment income	**884**	767	1,032
Net insurance premiums and guarantee fees*	**173**	179	247
Other expenses	**(86)**	(5)	(7)
Administrative expenses	**226**	245	330
Provision for (reversal of) credit losses	**(7)**	21	47
Claims-related expenses	**112**	45	60
Net income	**640**	630	835
Other comprehensive income	**76**	-	-
Comprehensive income	**$716**	$630	$835

****Includes loan guarantee fees***

Net income for the first nine months of 2013 was $640 million, in line with the Corporate Plan however we experienced fluctuations in various components which are discussed in further detail below.

Claims-related expenses for the first nine months of 2013 were $67 million higher than the Corporate Plan amount of $45 million. There was an actuarial increase in the net allowance for claims on insurance and a $23 million reduction in recoverable insurance claims that were not contemplated at the time of preparing the Corporate Plan.

Other expenses were $86 million compared to $5 million in the Corporate Plan. The variance is largely due to the volatility associated with our financial instruments carried at fair value.

Administrative expenses for the first three quarters of 2013 were $19 million lower than Corporate Plan. Changes in actuarial assumptions used to value our pension obligation and a lower than anticipated staff complement contributed to the reduction.

Other comprehensive income was $76 million for the first nine months of 2013 due to a re-measurement of our net pension liability. The re-measurement resulted from an increase in the discount rate used to value our pension obligation as well as from an increase in the fair value of our pension assets. Refer to Note 1 for further details.

Financial Position

as at *(in millions of Canadian dollars)*	**Sept 2013 Actual Results**	Sept 2013 Corporate Plan	Dec 2013 Corporate Plan
Cash and marketable securities	**3,587**	4,339	4,339
Derivative instruments	**830**	1,497	1,497
Loans receivable	**33,603**	31,024	31,733
Allowance for losses on loans	**(1,219)**	(1,369)	(1,364)
Other financing and leasing assets	**1,269**	1,250	1,249
Other assets	**2,607**	483	481
Total Assets	**$40,677**	$37,224	$37,935
Loans payable	**29,828**	27,157	27,710
Derivative instruments	**373**	181	181
Allowance for losses on loan commitments	**43**	64	63
Premium and claims liabilities	**621**	561	565
Other liabilities	**1,661**	824	774
Equity	**8,151**	8,437	8,642
Total Liabilities and Equity	**$40,677**	$37,224	$37,935

Loans receivable were $2.6 billion above Plan due to net loan disbursements that were $2.4 billion higher than projected in the Plan as a result of increased financing activity and a weaker Canadian dollar.

Other assets include $2.2 billion of trade date receivables which are mainly composed of funds receivable on debt issued and the related swaps. Funds receivable on financial instruments that have traded but not yet settled are recognized in other assets. These timing differences were not anticipated at the time the Plan was prepared.

Loans payable were $2.7 billion higher than the Corporate Plan mainly due to the same factors impacting the loans receivable discussed above. Our borrowing requirements are largely driven by the activity within our loan portfolio.

Other liabilities include $1 billion trade date payables mainly as a result of the swap that was used to convert the above mentioned debt issuance from a fixed rate loan payable to a floating rate loan payable. Funds payable on financial instruments that have traded but not yet settled are recognized in other liabilities. These timing differences were not anticipated at the time the Plan was prepared.

NON-IFRS PERFORMANCE MEASURES

Claims Ratio – Credit Insurance Program

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

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

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

	Nine months ended	
(in thousands of Canadian dollars)	**Sept 2013**	Sept 2012
Direct premiums	**78,170**	81,758
Reinsurance assumed	**5,000**	4,186
Reinsurance ceded	**(5,647)**	(4,920)
Net written premium	**$77,523**	$81,024
Direct net claims incurred	**55,559**	3,382
Net claims incurred – reinsurance assumed	**1,420**	678
Net claims incurred	**$56,979**	$4,060
Claims ratio %	**73.50%**	5.01%

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

Pierre Gignac,
Acting President

Ken Kember,
Senior Vice-President and Chief Financial Officer

Ottawa, Canada
November 21, 2013

Export Development Canada
Condensed Consolidated Financial Statements

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

	as at			
	Sept 2013	Jun 2013	Dec 2012 (Restated - Note 1)	Sept 2012 (Restated - Note 1)
Assets				
Cash	**70**	133	80	139
Marketable securities:				
At fair value through profit or loss	**3,440**	3,890	4,082	4,217
At amortized cost	**77**	78	74	74
Derivative instruments	**830**	714	1,352	1,659
Loans receivable (Notes 2 and 3)	**33,603**	33,017	30,131	29,536
Allowance for losses on loans (Note 4)	**(1,219)**	(1,141)	(1,182)	(1,360)
Investments at fair value through profit or loss	**519**	502	429	408
Equipment available for lease (Note 5)	**501**	509	525	412
Net investment in aircraft under finance leases	**75**	79	80	82
Recoverable insurance claims (Note 6)	**174**	179	200	38
Reinsurers' share of policy and claims liabilities (Note 7)	**89**	91	90	125
Other assets	**2,255**	789	99	202
Property, plant and equipment	**58**	61	66	66
Intangible assets	**41**	38	38	38
Building under finance lease	**164**	166	169	171
Total Assets	**$40,677**	$39,105	$36,233	$35,807
Liabilities and Equity				
Accounts payable and other credits	**1,152**	765	113	198
Dividend payable (Note 9)	**-**	1,440	-	-
Loans payable:				
Designated at fair value through profit or loss	**28,763**	26,069	24,862	23,505
At amortized cost	**1,065**	1,078	1,018	2,019
Derivative instruments	**373**	575	120	116
Obligation under finance lease	**171**	172	173	174
Retirement benefit obligations	**181**	246	270	329
Allowance for losses on loan commitments (Note 4)	**43**	47	58	47
Premium and claims liabilities (Note 7)	**621**	656	583	892
Loan guarantees	**157**	150	161	184
	32,526	31,198	27,358	27,464
Financing commitments (Note 2) and contingent liabilities (Note 8)				
Equity				
Share capital (Note 9)	**1,333**	1,333	1,333	1,333
Retained earnings	**6,818**	6,574	7,542	7,010
	8,151	7,907	8,875	8,343
Total Liabilities and Equity	**$40,677**	$39,105	$36,233	$35,807

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 November 21, 2013

Herbert M. Clarke
Director

Pierre Gignac
Director

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

	For the three months ended			For the nine months ended	
	Sept 2013	Jun 2013	Sept 2012 (Restated - Note 1)	**Sept 2013**	Sept 2012 (Restated - Note 1)
Financing and investment revenue:					
Loan (Note 13)	**295**	298	278	**866**	827
Finance lease	**1**	2	2	**4**	5
Operating lease	**16**	13	2	**38**	10
Marketable securities	**8**	8	9	**24**	28
Investments	**1**	5	1	**7**	4
Total financing and investment revenue	**321**	326	292	**939**	874
Interest expense (Note 14)	**8**	5	28	**20**	92
Leasing and financing related expenses	**12**	10	6	**35**	20
Net Financing and Investment Income	**301**	311	258	**884**	762
Loan Guarantee Fees	**9**	10	9	**27**	26
Insurance premiums and guarantee fees	**51**	52	51	**155**	159
Reinsurance assumed	**3**	4	3	**9**	9
Reinsurance ceded	**(6)**	(6)	(5)	**(18)**	(15)
Net Insurance Premiums and Guarantee Fees (Note 15)	**48**	50	49	**146**	153
Other Expenses (Note 18)	**(3)**	(59)	(44)	**(86)**	(53)
Administrative Expenses (Note 19)	**74**	77	75	**226**	228
Income before Provision and Claims-Related Expenses	**281**	235	197	**745**	660
Provision for (Reversal of) Credit Losses (Note 16)	**99**	(132)	(40)	**(7)**	(280)
Claims-Related Expenses (Recovery) (Note 17)	**(2)**	102	12	**112**	94
Net Income	**184**	265	225	**640**	846
Other comprehensive income:					
Pension plan re-measurement	**60**	16	-	**76**	-
Comprehensive Income	**$244**	$281	$225	**$716**	$846

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

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

	For the three months ended			For the nine months ended	
	Sept 2013	Jun 2013	Sept 2012 (Restated - Note 1)	**Sept 2013**	Sept 2012 (Restated - Note 1)
Share Capital (Note 9)	**1,333**	1,333	1,333	**1,333**	1,333
Retained Earnings					
Balance beginning of period	**6,574**	7,733	6,785	**7,542**	6,664
Net income	**184**	265	225	**640**	846
Other comprehensive income					
Pension plan re-measurement	**60**	16	-	**76**	-
Dividends (Note 9)	**-**	(1,440)	-	**(1,440)**	(500)
Balance end of period	**6,818**	6,574	7,010	**6,818**	7,010
Total Equity at End of Period	**$8,151**	$7,907	$8,343	**$8,151**	$8,343

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

	For the three months ended			For the nine months ended	
	Sept 2013	Jun 2013	Sept 2012 (Restated - Note 1)	**Sept 2013**	Sept 2012 (Restated - Note 1)
Cash Flows from (used in) Operating Activities					
Net income	**184**	265	225	**640**	846
Adjustments to determine net cash from (used in) operating activities					
Provision for (reversal of) credit losses	**99**	(132)	(40)	**(7)**	(280)
Actuarial change in the net allowance for claims on insurance	**(19)**	54	(3)	**39**	56
Depreciation and amortization	**17**	16	12	**49**	35
Changes in operating assets and liabilities					
Change in accrued interest and fees receivable	**(14)**	(5)	(35)	**(27)**	(28)
Change in fair value of marketable securities	**7**	48	(5)	**77**	(30)
Change in fair value of loans payable	**(15)**	(117)	51	**(183)**	60
Change in derivative instruments receivable	**(31)**	192	(124)	**252**	(82)
Change in derivative instruments payable	**253**	(575)	231	**(531)**	254
Other	**(1,100)**	(49)	(11)	**(1,136)**	(38)
Loan disbursements	**(3,387)**	(3,518)	(3,194)	**(9,696)**	(8,759)
Loan repayments	**2,302**	2,706	2,038	**7,238**	6,654
Net cash used in operating activities	**(1,704)**	(1,115)	(855)	**(3,285)**	(1,312)
Cash Flows from (used in) Investing Activities					
Disbursements for investments	**(31)**	(38)	(19)	**(103)**	(77)
Receipts from investments	**15**	7	16	**31**	41
Finance lease repayments	**3**	2	2	**8**	7
Purchases of marketable securities at fair value through profit or loss	**(9,955)**	(12,050)	(11,362)	**(31,265)**	(31,124)
Sales/maturities of marketable securities at fair value through profit or loss	**10,326**	12,367	11,944	**31,958**	30,548
Net cash from (used in) investing activities	**358**	288	581	**629**	(605)
Cash Flows from (used in) Financing Activities					
Issue of long-term loans payable - designated at fair value through profit or loss	**3,283**	1,353	1,126	**7,022**	6,478
Repayment of long-term loans payable - designated at fair value through profit or loss	**(241)**	(3,051)	(1,659)	**(5,439)**	(4,822)
Issue of short-term loans payable - designated at fair value through profit or loss	**5,924**	5,871	7,457	**16,847**	23,735
Repayment of short-term loans payable - designated at fair value through profit or loss	**(6,051)**	(3,859)	(6,592)	**(14,783)**	(22,853)
Change in derivative instruments receivable	**(86)**	256	(59)	**274**	(46)
Change in derivative instruments payable	**(104)**	228	(12)	**164**	(24)
Dividend paid	**(1,440)**	-	-	**(1,440)**	(500)
Net cash from financing activities	**1,285**	798	261	**2,645**	1,968
Effect of exchange rate changes on cash	**(2)**	3	(2)	**1**	(2)
Net increase (decrease) in cash	**(63)**	(26)	(15)	**(10)**	49
Cash					
Beginning of period	**133**	159	154	**80**	90
End of period	**$70**	$133	$139	**$70**	$139
Operating Cash Flows from Interest					
Cash paid for interest on loans payable	**$20**	$27	$27	**$69**	$121
Cash received for interest on currency swaps related to capital	**$19**	$19	$16	**$56**	$48
Cash received for interest on loan assets and marketable securities	**$258**	$276	$256	**$783**	$811

Notes to the Condensed Consolidated Financial Statements

1. Significant Accounting Policies

Basis of Presentation

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

These condensed interim consolidated financial statements follow the same accounting policies and methods of computation as our audited consolidated financial statements for the year ended December 31, 2012 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2012 and the accompanying notes as set out on pages 82-131 of our 2012 Annual Report.

Use of Judgements and Estimates

The preparation of financial statements requires the use of judgment and estimates. Judgment is required in the selection of accounting policies, and their application requires the use of estimates and assumptions to arrive at the reported carrying values of our assets and liabilities. Areas where significant estimates are used include the allowance for losses on loans, loan commitments and guarantees, equipment available for lease, premium and claims liabilities, recoverable insurance claims, retirement benefit obligations and financial instruments measured at fair value. Refer to page 86 of our 2012 Annual Report for details.

New and Amended Accounting Standards

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

New standards include:

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

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

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

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

Amended standards include:

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

- *IAS 19 - Employee Benefits* - This amendment, which was issued by the IASB in June 2011 was implemented effective January 1, 2013 and applied retrospectively. The amendment removes the option to use the corridor method to defer gains and losses, requires that the impact of re-measuring pension assets and liabilities be recorded in other comprehensive income and provides enhanced disclosure requirements for defined benefit plans. The transition adjustment upon adoption of the amended standard reduced opening retained earnings by $259 million. Other comprehensive income increased by $51 million due to the retrospective application of the re-measurement of actuarial gains on the obligation related to 2012. In addition, 2012 pension expense was restated to $56 million as a result of retrospective application of the standard, a $6 million decrease when compared to the 2012 Annual Report. In the first nine months of 2013, other comprehensive income totalled $76 million due to the re-measurement of the pension assets and liabilities.

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

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

2. Loans Receivable

(in millions of Canadian dollars)	**Sept 2013**	Jun 2013	Dec 2012	Sept 2012
Performing:				
Past due	**24**	3	11	15
Current year and beyond	**33,101**	32,269	29,165	28,274
Performing gross loans receivable	**33,125**	32,272	29,176	28,289
Individually impaired loans (Note 3)	**656**	939	1,160	1,604
Gross loans receivable	**33,781**	33,211	30,336	29,893
Accrued interest and fees receivable	**165**	165	157	173
Deferred loan revenue and other credits	**(343)**	(359)	(362)	(530)
Total loans receivable	**$33,603**	$33,017	$30,131	$29,536

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

(in millions of Canadian dollars)	**Sept 2013**		Jun 2013		Dec 2012		Sept 2012	
	$	**% of total**	$	% of total	$	% of total	$	% of total
Investment grade	**17,358**	**51**	16,743	50	14,480	48	14,028	47
Below investment grade	**15,767**	**47**	15,529	47	14,696	48	14,261	48
Individually impaired loans (Note 3)	**656**	**2**	939	3	1,160	4	1,604	5
Total gross loans receivable	**$33,781**	**100**	$33,211	100	$30,336	100	$29,893	100

The following table shows our outstanding financing commitments by type:

(in millions of Canadian dollars)	**Sept 2013**	Jun 2013	Dec 2012	Sept 2012
Signed loan commitments	**13,548**	14,147	13,382	10,783
Letters of offer	**4,444**	3,265	3,909	4,097
Confirmed lines of credit	**137**	107	111	119
Total financing commitments	**$18,129**	$17,519	$17,402	$14,999

3. Individually Impaired Loans

(in millions of Canadian dollars)	**Sept 2013**	Jun 2013	Dec 2012	Sept 2012
Gross loans receivable				
Sovereign	**79**	80	78	243
Commercial	**577**	859	1,082	1,361
	656	939	1,160	1,604
Less: Deferred loan revenue and other credits	**17**	19	24	194
Individual allowance	**355**	301	298	433
Carrying amount of individually impaired loans	**$284**	$619	$838	$977

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

(in millions of Canadian dollars)	**Sept 2013**	Sept 2012
Balance at January 1	**1,160**	1,805
Loans classified as impaired	**282**	351
Disbursements on loan guarantees called	**16**	67
Loans reinstated to performing	**(760)**	-
Principal repayments	**(51)**	(71)
Loans written off	**(19)**	(86)
Principal recoveries from asset sales	**(5)**	(45)
Value of repossessed assets	**-**	(362)
Foreign exchange translation	**33**	(55)
Balance at September 30	**$656**	$1,604

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

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

(in millions of Canadian dollars)	**Sept 2013**	Jun 2013	Dec 2012	Sept 2012
Base allowance				
Investment grade exposure	**81**	80	70	66
Non-investment grade exposure	**833**	806	869	955
Total base allowance	**914**	886	939	1,021
Counterparty concentration				
Investment grade exposure	**3**	3	4	4
Non-investment grade exposure	**66**	73	93	55
Total counterparty concentration	**69**	76	97	59
Total collective allowance	**983**	962	1,036	1,080
Allowance for individually impaired loans, loan commitments and loan guarantees	**385**	324	314	457
Total allowance for losses on loans, loan commitments and loan guarantees	**$1,368**	$1,286	$1,350	$1,537

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

(in millions of Canadian dollars)	**Sept 2013**	Jun 2013	Dec 2012	Sept 2012
Allowance for losses on loans	**1,219**	1,141	1,182	1,360
Allowance for losses on loan commitments	**43**	47	58	47
Allowance for losses on loan guarantees*	**106**	98	110	130
Total	**$1,368**	$1,286	$1,350	$1,537

** Included in the liability for loan guarantees.*

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

(in millions of Canadian dollars)	**Collective**	**Individual**	**Sept 2013 Total**	Collective	Individual	Sept 2012 Total
Balance at beginning of year	**1,036**	**314**	**1,350**	1,418	509	1,927
Provision for (reversal of) credit losses on loans, loan commitments and guarantees	**(84)**	**77**	**(7)**	(307)	27	(280)
Write-offs	**-**	**(19)**	**(19)**	-	(68)	(68)
Recovery of amounts written-off in prior years	**-**	**1**	**1**	-	2	2
Foreign exchange translation	**31**	**12**	**43**	(31)	(13)	(44)
Total	**$983**	**$385**	**$1,368**	$1,080	$457	$1,537

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

While the probability of default rates were updated in 2012, this was based on each obligors' existing risk ratings at that time based on our prior risk-rating methodologies. As part of the final implementation stages, existing exposures within the scope of this project that require annual review as per our risk management policies are being re-evaluated using the new internal credit risk rating models developed throughout 2012. This migration will occur throughout the year and is expected to be complete by the end of 2013. The difference between using our new models and the former methodologies is a change in estimate and will be disclosed at each reporting date during 2013. The change in estimate as at September 30, 2013 is a $22 million provision charge. The impact on future periods has not been determined as it is impracticable to estimate.

5. Equipment Available for Lease

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

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

(in millions of Canadian dollars)	**Sept 2013**	Jun 2013	Dec 2012	Sept 2012
Cost				
Aircraft	**438**	438	438	350
Engines	**181**	181	181	151
Major overhaul cost	**16**	16	16	17
Total cost	**635**	635	635	518
Accumulated depreciation and impairment				
Aircraft	**(77)**	(70)	(59)	(55)
Engines	**(45)**	(43)	(40)	(40)
Major overhaul cost	**(13)**	(13)	(11)	(11)
Total accumulated depreciation and impairment	**(135)**	(126)	(110)	(106)
Carrying amount	**500**	509	525	412
Lease setup costs	**1**	-	-	-
Total equipment available for lease	**$501**	$509	$525	$412

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

(in millions of Canadian dollars)				**Sept 2013**				Sept 2012
	Number of aircraft in portfolio	**Carrying amount**	**Number of aircraft on operating lease**	**Current lease term range**	Number of aircraft in portfolio	Carrying amount	Number of aircraft on operating lease	Current lease term range
Aircraft type								
CRJ200 Regional Jets	**18**	**37**	**18**	**4 to 32 months**	19	49	18	11 to 44 months
CRJ900 Regional Jets	**8**	**91**	**8**	**89 to 92 months**	-	-	-	-
Dash 8 – Q400*	**28**	**372**	**26**	**82 to 94 months**	26	363	7	94 to 96 months
Total portfolio	**54**	**$500**	**52**		45	$412	25	

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

6. Recoverable Insurance Claims

(in millions of Canadian dollars)	**Sept 2013**	Sept 2012
Balance at January 1	**200**	44
Claims paid	**48**	47
Claims paid – reinsured policies	**4**	-
Claims recovered	**(8)**	(16)
Change in recoverable portion of cumulative claims paid	**(71)**	(36)
Foreign exchange translation	**1**	(1)
Balance at September 30	**$174**	$38

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)				**Sept 2013**				Jun 2013				Dec 2012				Sept 2012
	CI	**CIB**	**PRI**	**Total**	CI	CIB	PRI	Total	CI	CIB	PRI	Total	CI	CIB	PRI	Total
Insurance	**142**	**98**	**381**	**621**	143	115	398	656	114	96	373	583	120	92	680	892
Reinsurance	**(2)**	**-**	**(87)**	**(89)**	(2)	(1)	(88)	(91)	(8)	(2)	(80)	(90)	(9)	(2)	(114)	(125)
Net liability	**$140**	**$98**	**$294**	**$532**	$141	$114	$310	$565	$106	$94	$293	$493	$111	$90	$566	$767

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

(in millions of Canadian dollars)	**Sept 2013**	Jun 2013	Dec 2012	Sept 2012
Deferred insurance premiums	**88**	96	100	75
Allowance for claims on insurance	**533**	560	483	817
Total premium and claims liabilities	**$621**	$656	$583	$892

8. Contingent Liabilities

As explained on page 86 of the 2012 Annual Report, we are subject to a limit imposed by the Export Development Act on our contingent liability arrangements. The limit is currently $45.0 billion. Our position against this limit is provided below:

(in millions of Canadian dollars)	**Sept 2013**	Jun 2013	Dec 2012	Sept 2012
Credit insurance	**8,201**	8,352	7,750	7,632
Financial institutions insurance	**3,664**	4,559	4,118	4,217
Contract insurance and bonding	**8,503**	8,340	8,161	8,307
Political risk insurance	**1,578**	1,666	1,503	1,910
Contingent liabilities – insurance program	**21,946**	22,917	21,532	22,066
Loan guarantees	**2,032**	2,048	2,104	2,452
Total	**$23,978**	$24,965	$23,636	$24,518

9. Share Capital

EDC's authorized share capital is $3.0 billion consisting of 30 million shares with a par value of $100 each. The number of shares issued and fully paid is 13.3 million (2012 – 13.3 million). In the third quarter of 2013, a dividend of $1.44 billion was paid to the Government of Canada (2012 - $500 million).

10. Capital Management

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

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

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

(in millions of Canadian dollars)	**Sept 2013**	Jun 2013	Dec 2012 (restated)[1]	Sept 2012 (restated)[1]
Allowance for losses on loans	**1,219**	1,141	1,182	1,360
Allowance for losses on loan commitments	**43**	47	58	47
Allowance for losses on loan guarantees	**106**	98	110	130
Allowance for claims on insurance	**533**	560	483	817
Reinsurers' share of premium and claims liabilities	**(89)**	(91)	(90)	(125)
Share capital	**1,333**	1,333	1,333	1,333
Retained earnings	**6,818**	6,574	7,542	7,010
Supply of capital	**$9,963**	$9,662	$10,618	$10,572

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

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.

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)		**Sept 2013**		Jun 2013
	Carrying value	**Fair value**	Carrying value	Fair value
Assets				
Performing fixed rate loans	**8,048**	**8,384**	8,264	8,623
Performing floating rate loans	**24,061**	**24,739**	23,004	23,679
Total performing loans receivable	**32,109**	**33,123**	31,268	32,302
Impaired loans	**284**	**284**	619	619
Loans receivable and accrued interest and fees	**32,393**	**33,407**	31,887	32,921
Marketable securities:				
At fair value through profit or loss	**3,440**	**3,440**	3,890	3,890
At amortized cost	**77**	**77**	78	78
Derivative instruments	**830**	**830**	714	714
Investments at fair value through profit or loss	**519**	**519**	502	502
Recoverable insurance claims	**174**	**174**	179	179
Other assets	**2,255**	**2,257**	789	789
Liabilities				
Accounts payable and other credits	**1,152**	**1,159**	765	772
Loans payable:				
Designated at fair value through profit or loss	**28,763**	**28,763**	26,069	26,069
At amortized cost	**1,065**	**1,087**	1,078	1,107
Derivative instruments	**373**	**373**	575	575
Loan guarantees	**157**	**130**	150	134

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

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

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

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

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

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

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

(in millions of Canadian dollars)

Valuation technique	Unobservable input	Range (weighted average)	Fair value at Sept 2013[(1)]
Liquidity discount	Discount rate	10% - 30% (19%)	33
EBITDA Multiple[(2)]	Multiple of EBITDA	8.30 – 11.10 (9.70)	7
Sales multiple	Multiple of sales	1.25 – 17.70 (3.08)	5
Discounted cash flows	Discount rate	18% (18%)	5

(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

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

(in millions of Canadian dollars)

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

Other Assets and Accounts Payable and Other Credits

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

Loans Payable

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

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

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

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

Derivative Instruments

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

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

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

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

Loan Guarantees

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

Fair Value Hierarchy

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

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

(in millions of Canadian dollars)				**Sept 2013**				Jun 2013
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Assets								
Performing fixed rate loans	**-**	**8,384**	**-**	**8,384**	-	8,623	-	8,623
Performing floating rate loans	**-**	**24,739**	**-**	**24,739**	-	23,679	-	23,679
Total performing loans receivable	**-**	**33,123**	**-**	**33,123**	-	32,302	-	32,302
Impaired loans	**-**	**284**	**-**	**284**	-	619	-	619
Loans receivable and accrued interest and fees	**-**	**33,407**	**-**	**33,407**	-	32,921	-	32,921
Marketable securities:								
At fair value through profit or loss	**2,092**	**1,348**	**-**	**3,440**	2,094	1,796	-	3,890
At amortized cost	**77**	**-**	**-**	**77**	78	-	-	78
Derivative instruments	**-**	**788**	**42**	**830**	-	671	43	714
Investments at fair value through profit or loss	**8**	**-**	**511**	**519**	-	-	502	502
Recoverable insurance claims	-	**-**	**174**	**174**	-	-	179	179
Other assets	**2,206**	**51**	**-**	**2,257**	738	51	-	789
Liabilities								
Accounts payable and other credits	**1,105**	**54**	**-**	**1,159**	716	56	-	772
Loans payable:								
Designated at fair value through profit or loss	**-**	**28,528**	**235**	**28,763**	-	25,827	242	26,069
Designated at amortized cost	**-**	**1,087**	**-**	**1,087**	-	1,107	-	1,107
Derivative instruments	**-**	**373**	**-**	**373**	-	575	-	575
Loan guarantees	**-**	**130**	**-**	**130**	-	134	-	134

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

(in millions of Canadian dollars)					**Sept 2013**
	Recoverable insurance claims	**Investments at fair value through profit or loss**	**Loans payable designated at fair value through profit or loss**	**Derivative instruments**	**Total**
Balance at beginning of year	**200**	**429**	**(320)**	**64**	**373**
Decrease in recoverable insurance claims	**(25)**	**-**	**-**	**-**	**(25)**
Accrued interest	**-**	**-**	**9**	**(9)**	**-**
Unrealized gains (losses) included in other expenses	**-**	**6**	**10**	**(8)**	**8**
Purchases of assets/issuances of liabilities	**-**	**103**	**-**	**-**	**103**
Matured assets/liabilities	**-**	**-**	**78**	**(8)**	**70**
Return of capital	**-**	**(31)**	**-**	**-**	**(31)**
Transfers out of Level 3	**-**	**(8)**	**-**	**-**	**(8)**
Adjustments	**-**	**(2)**	**-**	**-**	**(2)**
Foreign exchange translation	**(1)**	**14**	**(12)**	**3**	**4**
Balance at end of period	**$174**	**$511**	**$(235)**	**$42**	**$492**
Total gains (losses) for first nine months of 2013 included in comprehensive income for instruments held at end of the quarter	**$(23)**	**$8**	**$12**	**$(14)**	**$(17)**

Changes in valuation methods may result in transfers into or out of levels 1, 2 and 3. In the first nine months of 2013 there was an $8 million transfer within the investments portfolio from Level 3 to Level 1. Three Direct investments went public and quoted price became available.

For the quarter ended September 30, 2013, a sensitivity analysis was performed using possible alternative assumptions to recalculate the fair value of our Level 3 financial instruments. The fair value of Level 3 financial instruments is in whole or in part based on unobservable inputs. In preparing financial statements, appropriate levels for these unobservable inputs parameters are chosen so that they are consistent with prevailing market evidence or management judgment.

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

In order to perform our sensitivity analysis for our Level 3 investments, we adjusted the unobservable inputs. The unobservable inputs used to value our Level 3 investments include one or more of the following: rate of return, multiple of sales, liquidity discount, PE discount and multiple of EBITDA. The results of our analysis on our Level 3 investments ranged from an unfavourable change of $16 million to a favourable change of $17 million.

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

12. Financial Instrument Risks

The principal risks that we are exposed to as a result of holding financial instruments are credit, market and liquidity risk.

Credit Risk

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

The following table provides a breakdown, by the country in which the risk resides, of the maximum gross exposure to credit risk of financial instruments. The exposure includes gross loans receivable, loan guarantees, investments at fair value through profit or loss, marketable securities, derivative assets and cash.

(in millions of Canadian dollars)	**Sept 2013 Exposure**		Jun 2013 Exposure		Dec 2012 Exposure		Sept 2012 Exposure	
Country	**$**	**%**	$	%	$	%	$	%
United States	**11,439**	**28**	11,876	29	12,051	31	12,859	33
Canada	**6,449**	**15**	6,662	16	6,568	17	7,256	19
Brazil	**2,438**	**6**	2,523	6	2,317	6	2,240	6
Mexico	**2,121**	**5**	1,955	5	2,020	5	2,004	5
Australia	**2,007**	**5**	2,066	5	1,370	4	1,055	3
United Kingdom	**1,733**	**4**	1,146	3	1,179	3	1,200	3
India	**1,539**	**4**	1,603	4	1,557	4	1,411	4
Chile	**1,049**	**3**	1,113	3	1,136	3	839	2
United Arab Emirates	**783**	**2**	752	2	463	1	462	1
Germany	**745**	**2**	852	2	615	2	606	1
Other	**10,446**	**26**	10,028	25	9,181	24	8,910	23
Total	**$40,749**	**100**	$40,576	100	$38,457	100	$38,842	100

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

(in millions of Canadian dollars)	**Sept 2013 Exposure**		Jun 2013 Exposure		Dec 2012 Exposure		Sept 2012 Exposure	
Industry	**$**	**%**	$	%	$	%	$	%
Commercial:								
Extractive	**10,582**	**26**	10,140	25	8,767	24	8,098	21
Aerospace	**10,495**	**26**	10,310	26	9,573	25	9,436	24
Surface transportation	**4,359**	**11**	4,475	11	4,066	11	4,568	12
Infrastructure and environment	**3,249**	**8**	3,198	8	3,131	8	3,215	8
Information and communication technology	**3,013**	**7**	2,973	7	2,841	7	2,651	7
Financial institutions	**2,735**	**7**	2,951	7	3,183	8	4,322	11
Other	**2,092**	**5**	2,142	5	2,101	5	2,063	5
Total commercial	**36,525**	**90**	36,189	89	33,662	88	34,353	88
Sovereign	**4,224**	**10**	4,387	11	4,795	12	4,489	12
Total	**$40,749**	**100**	$40,576	100	$38,457	100	$38,842	100

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

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

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

13. Loan Revenue

	Three months ended			Nine months ended	
(in millions of Canadian dollars)	**Sept 2013**	Jun 2013	Sept 2012	**Sept 2013**	Sept 2012
Loan interest					
Floating rate	**147**	139	141	**421**	411
Fixed rate	**98**	101	95	**294**	290
Loan fee revenue	**39**	43	31	**116**	87
Impaired revenue	**8**	12	10	**27**	32
Other	**3**	3	1	**8**	7
Total loan revenue	**$295**	$298	$278	**$866**	$827

14. Interest Expense

	Three months ended			Nine months ended	
(in millions of Canadian dollars)	**Sept 2013**	Jun 2013	Sept 2012	**Sept 2013**	Sept 2012
Loans payable designated at fair value through profit or loss and related derivatives					
Short-term payables	**6**	5	6	**16**	22
Long-term payables – floating	**17**	18	25	**54**	78
Long-term payables – fixed	**(8)**	(8)	(8)	**(24)**	(25)
Loans payable carried at amortized cost					
Long-term payables – fixed	**9**	8	20	**25**	60
Total interest expense on loans payable and related derivatives	**24**	23	43	**71**	135
Interest income on currency swaps related to capital	**(18)**	(19)	(17)	**(55)**	(48)
Other	**2**	1	2	**4**	5
Total interest expense	**$8**	$5	$28	**$20**	$92

Our interest expense includes not only the cost of the loans payable issued by EDC and the related derivatives, but also the impact of the currency swaps used to reduce the foreign currency risk of our capital. These currency swaps are set up with the objective to offset U.S. dollar assets and liabilities. As a result, they include a Canadian dollar receivable component and a U.S. dollar payable component with each carrying a floating interest rate. The positive spread between the Canadian dollar interest rates applicable to the receivable component of these swaps and the U.S. dollar rates on their payable component remained steady in 2013, which led to stable interest revenue on these swaps since the beginning of the year.

15. Net Insurance Premiums and Guarantee Fees

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

(in millions of Canadian dollars)	Three months ended														
					Sept 2013					Jun 2013					Sept 2012
	CI	**FII**	**CIB**	**PRI**	**Total**	CI	FII	CIB	PRI	Total	CI	FII	CIB	PRI	Total
Direct premiums	**26**	**5**	**13**	**7**	**51**	27	5	12	8	52	29	7	8	7	51
Reinsurance assumed	**1**	**-**	**2**	**-**	**3**	3	-	-	1	4	2	-	1	-	3
Reinsurance ceded	**(2)**	**-**	**(1)**	**(3)**	**(6)**	(2)	-	-	(4)	(6)	(2)	-	-	(3)	(5)
Net insurance premiums and guarantee fees	**$25**	**$5**	**$14**	**$4**	**$48**	$28	$5	$12	$5	$50	$29	$7	$9	$4	$49

(in millions of Canadian dollars)	Nine months ended									
					Sept 2013					Sept 2012
	CI	**FII**	**CIB**	**PRI**	**Total**	CI	FII	CIB	PRI	Total
Direct premiums	**80**	**16**	**36**	**23**	**155**	84	21	33	21	159
Reinsurance assumed	**5**	**-**	**3**	**1**	**9**	4	-	4	1	9
Reinsurance ceded	**(6)**	**-**	**(2)**	**(10)**	**(18)**	(5)	-	(2)	(8)	(15)
Net insurance premiums and guarantee fees	**$79**	**$16**	**$37**	**$14**	**$146**	$83	$21	$35	$14	$153

16. Provision for (Reversal of) Credit Losses

(in millions of Canadian dollars)	Three months ended **Sept 2013**	Jun 2013	Sept 2012	Nine months ended **Sept 2013**	Sept 2012
Updates to independent variables:					
Changes in collateral values	**31**	4	-	**125**	48
Increased concentration threshold	**-**	-	-	**(8)**	(4)
Updated probability of default rates	**-**	-	-	**-**	(156)
Update to loss given default assumption	**-**	-	-	**-**	(63)
Update to loss emergence period assumption	**-**	-	(16)	**-**	(12)
Changes in portfolio composition(1)	**(22)**	(52)	(17)	**(127)**	(134)
Credit migration	**90**	(87)	(6)	**4**	42
Other	**-**	3	(1)	**(1)**	(1)
Provision for (reversal of) credit losses	**$99**	$(132)	$(40)	**$(7)**	$(280)

(1) Represents provision requirements (release) as a result of disbursements, new financing trade facilitated and repayments.

(in millions of Canadian dollars)	Three months ended **Sept 2013**	Jun 2013	Sept 2012	Nine months ended **Sept 2013**	Sept 2012
Provision for (reversal of) losses on loans	**95**	(114)	(47)	**16**	(212)
Provision for (reversal of) losses on loan commitments	**(4)**	(11)	5	**(17)**	7
Provision for (reversal of) losses on loan guarantees	**8**	(7)	2	**(6)**	(75)
Provision for (reversal of) credit losses	**$99**	$(132)	$(40)	**$(7)**	$(280)

17. Claims-Related Expenses (Recovery)

(in millions of Canadian dollars)	Three months ended **Sept 2013**	Jun 2013	Sept 2012	Nine months ended **Sept 2013**	Sept 2012
Claims paid	**13**	28	18	**48**	47
Claims paid – reinsured policies	**1**	2	-	**4**	-
Claims recovered	**(2)**	(3)	(3)	**(8)**	(16)
Actuarial increase (decrease) in the net allowance for claims	**(19)**	54	(3)	**39**	56
Increase (decrease) in recoverable insurance claims	**4**	21	(1)	**27**	5
Claims handling and settlement expenses	**1**	-	1	**2**	2
Total claims-related expenses (recovery)	**$(2)**	$102	$12	**$112**	$94

18. Other Expenses

(in millions of Canadian dollars)	Three months ended **Sept 2013**	Jun 2013	Sept 2012	Nine months ended **Sept 2013**	Sept 2012
Net unrealized gain (loss) on loans payable designated at fair value through profit or loss	**3**	118	(62)	**176**	(114)
Net unrealized gain (loss) on derivatives related to loans payable	**(23)**	(128)	31	**(222)**	108
Net realized and unrealized gain (loss) on marketable securities at fair value through profit or loss	**3**	(37)	6	**(36)**	15
Net unrealized loss on loan related credit default swaps	**(1)**	(1)	(28)	**(6)**	(59)
Net realized and unrealized gain (loss) on investments at fair value through profit or loss	**8**	4	7	**8**	(5)
Foreign exchange translation gain (loss)	**8**	(6)	3	**4**	3
Loss on aircraft or component parts held for sale	**-**	(9)	-	**(8)**	-
Other	**(1)**	-	(1)	**(2)**	(1)
Total other expenses	**$(3)**	$(59)	$(44)	**$(86)**	$(53)

We have designated the majority of our loans payable at fair value through profit or loss in order to obtain the same accounting treatment as their related derivatives. In general, these derivatives are entered into to manage interest and foreign exchange rate risks on the related loans payable. For the three months ended September 2013, the net unrealized loss on our loans payable and associated derivatives totalled $20 million compared to a loss of $10 million for the previous quarter. In accordance with IFRS, our debt is valued on the basis of our credit rating (AAA) while the related derivatives are being valued on curves that reflect the credit risk of the resulting exposure. During the three months ended September 2013, relevant rates moved less than they did in the previous quarter resulting in relatively smaller gains and losses on our loans payable and their related derivatives. At the same time, most rates relevant to the valuation of our loans payable moved less than those relevant to the valuation of the related derivatives in the quarter, leading to losses on our derivatives exceeding the gains on our loans payable.

Our marketable securities include short-term instruments, loans payable and government securities; as such the value of the portfolio is significantly impacted by long-term U.S. Treasury rates. For the three months ended September 2013, the net realized and unrealized gain on marketable securities was $3 million compared to a loss of $37 million for the previous quarter; a reflection of the decrease of long-term U.S. Treasury rates during the quarter compared to an increase of these rates in the previous quarter.

19. Administrative Expenses

	Three months ended			Nine months ended	
(in millions of Canadian dollars)	**Sept 2013**	Jun 2013	Sept 2012 (restated)[1]	**Sept 2013**	Sept 2012 (restated)[1]
Salaries and benefits	**38**	41	36	**120**	116
Pension, other retirement and post-employment benefits	**12**	12	15	**36**	43
Accommodation	**7**	7	7	**21**	20
Amortization and depreciation	**6**	7	7	**19**	21
Other	**11**	10	10	**30**	28
Total administrative expenses	**$74**	$77	$75	**$226**	$228

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

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

	Three months ended			Nine months ended	
(in millions of Canadian dollars)	**Sept 2013**	Jun 2013	Sept 2012	**Sept 2013**	Sept 2012
Pension benefit expense	**8**	8	11	**24**	32
Other post-employment benefit and severance expense	**4**	4	4	**12**	11
	$12	$12	$15	**$36**	$43

20. Related Party Transactions

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

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