Turning the Corner on Trade

Quarterly Financial Report
September 30, 2014
Unaudited

Canada

Realize a World of Opportunity

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Caution regarding forward-looking statements

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

OVERVIEW

Export Development Canada (EDC) is Canada's export credit agency. Our mandate is to support and develop Canada's trade, and the capacity of Canadian companies to participate in and respond to international business opportunities. We provide insurance and financial services, bonding products, small business solutions as well as online credit risk management tools to Canadian exporters, investors and their international buyers. We place a particular emphasis on small and medium enterprises by developing tools to help them succeed in international markets. Each year more than 7,200 Canadian companies and their global customers in up to 200 markets worldwide use our knowledge and partnerships. EDC is a Crown corporation, wholly owned by the Government of Canada and accountable to Parliament through the Minister of International Trade. We are financially self-sustaining and do not receive parliamentary appropriations; our revenue is generated primarily by collecting interest on our loans, fees on our guarantee products and premiums on our insurance products.

Economic Environment

The U.S. economy shook off the initial weakness displayed in the first and second quarters. Advances in indicators of U.S. economic expansion in the third quarter, such as the acceleration of U.S. retail sales and personal consumption expenditures, higher consumer confidence, continued consumer deleveraging and rising household net worth, laid the groundwork for continued spending going forward. Additionally, new residential housing construction trended moderately higher, new home sales rose to a six-year record and homebuilder optimism more than recouped earlier weather-related setbacks, foreshadowing better times ahead for the housing industry.

Canadian merchandise exports increased in the third quarter and lifted the trade balance to a six-year high, driven by rising shipments of automotive products to accommodate surging U.S. demand. Forestry exports to supply the U.S. construction recovery grew by 3.6%, while agricultural exports increased by 3.0% due to strength in live animal and canola shipments. Canadian merchandise exports are now running 11.0% ahead of last year, reflecting the growing economic momentum in North America.

In addition, the recent depreciation of the Canadian dollar, brought about partly by the strengthening of the U.S. dollar and weakness in global commodity prices, further improves Canada's exports. As Canada's domestic economy softens – due to high consumer debt levels, an overbought housing market and the absence of growth-enhancing stimulus – the growth of international prospects will be a welcomed development going forward.

Business Facilitated

Business facilitated in our direct lending program increased by 18% when compared to the same period in 2013. This is primarily due to an increase in demand within the extractive sector. In addition, we realized a favourable foreign exchange impact across the financing program as a result of the weakening of the Canadian dollar in relation to the U.S. dollar.

Business facilitated within our credit insurance program decreased by $901 million in comparison to the first nine months of 2013. The decrease was primarily due to a decline in business activity for one large customer.

Business facilitated within our financial institutions insurance portfolio increased by 30% in comparison

	For the nine months ended	
(in millions of Canadian dollars)	**Sept 2014**	Sept 2013
Business Facilitated		
Direct lending	**11,216**	9,477
Project finance	**1,918**	1,838
Loan guarantees	**633**	605
Investments	**153**	103
Total financing and investments	**13,920**	12,023
Credit insurance	**40,954**	41,855
Financial institutions insurance	**10,140**	7,779
Contract insurance and bonding	**3,121**	3,268
Political risk insurance	**2,238**	2,187
Total insurance	**56,453**	55,089
Total business facilitated	**$70,373**	$67,112

with the first nine months of 2013. This increase is primarily due an increase in demand in major markets, particularly China and Brazil.

SUMMARY OF FINANCIAL RESULTS

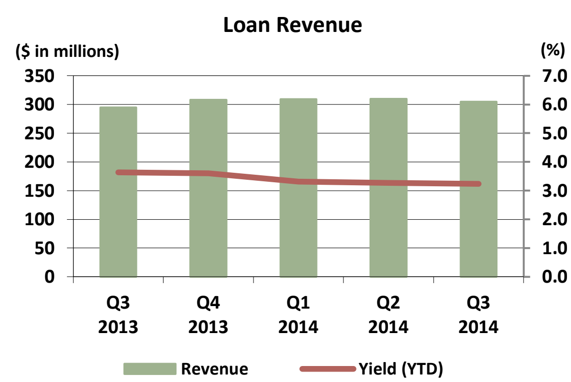
Financial Performance

	For the three months ended			For the nine months ended	
(in millions of Canadian dollars)	**Sept 2014**	Jun 2014	Sept 2013	**Sept 2014**	Sept 2013
Net financing and investment income	**302**	302	301	**919**	884
Net insurance premiums and guarantee fees*	**57**	62	57	**172**	173
	359	364	358	**1,091**	1,057
Other (income) expenses	**6**	(20)	3	**(24)**	86
Administrative expenses	**80**	81	74	**235**	226
Provision for (reversal of) credit losses	**(32)**	(119)	99	**(2)**	(7)
Claims-related expenses (recovery)	**10**	(52)	(2)	**79**	112
Net income	**$295**	$474	$184	**$803**	$640
Period average U.S.$ equivalent of CAD 1.00	**0.92**	0.92	0.96	**0.91**	0.98

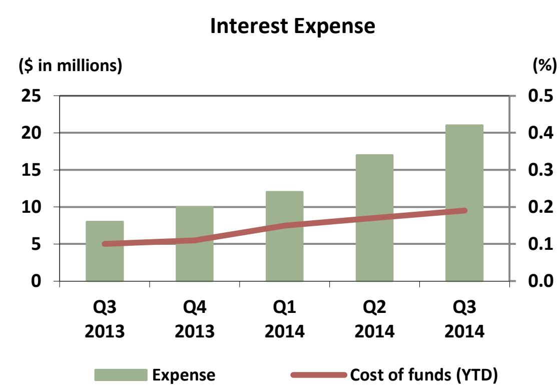
* *Includes loan guarantee fees.*

Fluctuations in net income between reporting periods were largely caused by changes in provisioning requirements and claims-related expenses. These changes are further discussed beginning on page 6. In addition, we continued to see volatility in the fair values of our financial instruments between periods due to market conditions, and we have reported gains on the sale of aircraft from our leasing portfolio in the second quarter of 2014. The impact of these two items is included in other (income) expenses.

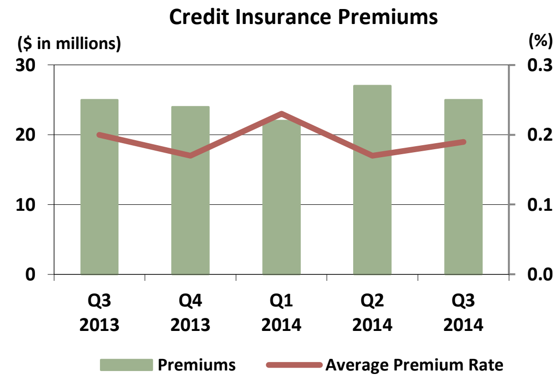
Loan revenue, included in net financing and investment income above, remained stable when compared with the second quarter. Growth in our loan book continued to be tempered by lower yields, consistent with the current interest rate environment.



In 2014, interest expense and cost of funds increased primarily as a result of higher fixed rate funding and reduced revenue from our currency swaps related to our capital. Refer to Note 15 for further details.



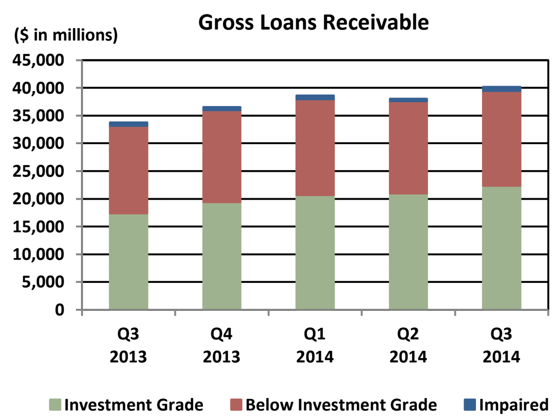
The average credit insurance premium rate has increased in the third quarter due to less activity for accounts with low premium rates.



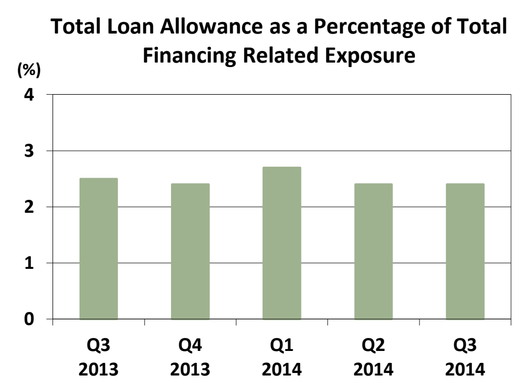
Financial Position

as at *(in millions of Canadian dollars)*	**Sept 2014**	Jun 2014	Dec 2013	Sept 2013
Total assets	**46,090**	44,590	41,516	40,677
Total liabilities	**38,124**	36,882	33,145	32,526
Equity	**7,966**	7,708	8,371	8,151
Gross loans receivable	**40,181**	38,070	36,549	33,781
Total allowances	**1,855**	1,865	1,838	1,826
Period-end US$ equivalent of CAD 1.00	**0.89**	0.94	0.94	0.97

Gross loans receivable have increased when compared to prior periods mainly due to net loan disbursements and the weakening of the Canadian dollar.



Total allowance as a percentage of total financing related exposure remained constant with the prior quarter. The decline from the first quarter is primarily due to positive credit migration in the second quarter of 2014.



Impact of Foreign Exchange Translation on Financial Results

Our foreign currency-denominated results are impacted by exchange rate fluctuations. The depreciation of the Canadian dollar had a favourable impact on our third quarter financial results and financial position. The following table reflects the estimated impact of foreign exchange translation:

	As at or for the three months ended		As at or for the nine months ended	
(in millions of Canadian dollars)	Sept 2014 vs. Sept 2013	Sept 2014 vs. Jun 2014	Sept 2014 vs. Sept 2013	Sept 2014 vs. Dec 2013
Financial Results				
Increase (decrease) in comprehensive income	11	(1)	50	
Increase (decrease) in business facilitated	818	(38)	3,643	
Financial Position				
Increase in loans receivable	2,464	1,591		1,625
Increase in loans payable	2,779	1,795		1,780

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 68-75 of our 2013 Annual Report. Refer to Note 13 of the accompanying financial statements for details on financial instrument risks.

THIRD QUARTER HIGHLIGHTS

	Three months ended	
(in millions of Canadian dollars)	**Sept 2014**	Jun 2014
Income before provisions and claims-related expenses	**273**	303
Provision for (reversal of) credit losses	**(32)**	(119)
Claims-related expenses (recovery)	**10**	(52)
Net income	**$295**	$474

Net income was $295 million compared to $474 million reported in the previous quarter. A lower reversal of provisions for credit losses and higher claims-related expenses were the primary contributors to the decline in net income.

Provisions for credit losses increased by $87 million as the impact of positive credit migration was more significant in the previous quarter. The positive credit migration in the second quarter was specifically related to the upgrade of one aerospace obligor. Refer to Note 17 for further details.

We experienced $10 million in **claims-related expenses** in the third quarter compared to a recovery of $52 million in the second quarter. In the second quarter, we adjusted our assumption for the frequency of claims used in the allowance calculation which resulted in a $74 million actuarial decrease in the net allowance for claims on insurance. Refer to Note 8 for further details.

Other items of note in the third quarter:

Impaired loans increased by $269 million mainly due to the impairment of one obligor in the aerospace sector during the third quarter.

FINANCIAL RESULTS – YEAR TO DATE

Prior Year Comparison

Net income was $803 million for the first nine months of 2014, $163 million higher than the net income reported for the same period in 2013. The increase is primarily due to fluctuations in the fair value of our financial instruments and gains related to the sale of aircraft from our leasing portfolio, both of which are components of other (income) expenses. In addition, we experienced a variance in claims-related expenses which is explained below.

Other income was $24 million for the first nine months of 2014 compared to other expenses of $86 million for the same period in 2013. The variance is largely due to the volatility associated with our financial instruments carried at fair value as well as the gain on the sale of 8 CRJ900 aircraft from the held-for-sale portfolio in the second quarter of 2014. Refer to Note 19 for further details.

Claims-related expenses were $79 million for the first nine months of the year, compared to $112 million for the prior year period. In both years, heightened risk in our political risk insurance program has had a significant impact on our claims-related expenses. In the second quarter we adjusted our frequency assumptions used in the allowance for claims calculation and this somewhat mitigated the impact of the increased risk in the political risk insurance program in 2014. Refer to Note 8 for further details.

We recorded an **other comprehensive loss** of $79 million in the first nine months of the year compared to other comprehensive income of $76 million for the prior year period due to a decline in the discount rate used to value our pension assets and liabilities.

Corporate Plan Comparison

Financial Performance

	Nine months ended		Year ended
(in millions of Canadian dollars)	**Sept 2014 Actual Results**	Sept 2014 Corporate Plan	Dec 2014 Corporate Plan
Net financing and investment income	**919**	829	1,115
Net insurance premiums and guarantee fees*	**172**	171	228
Other (income) expenses	**(24)**	(7)	(9)
Administrative expenses	**235**	243	334
Provision for (reversal of) credit losses	**(2)**	134	177
Claims-related expenses	**79**	45	60
Net income	**803**	585	781
Other comprehensive income (loss)	**(79)**	28	38
Comprehensive income	**$724**	$613	$819

Includes loan guarantee fees.

Net income for the first nine months of 2014 was $218 million higher than the Corporate Plan primarily due to changes in provisioning requirements in our loans portfolio and an increase in net financing and investment income. In addition, we experienced variances in other items which are explained below.

We recorded a **provision reversal** of $2 million for the first nine months of 2014, $136 million lower than the Corporate Plan. The decrease was primarily due to upward credit migration not projected in the Plan for one aerospace obligor.

Net financing and investment income for the first nine months of 2014 was $919 million, $90 million higher than anticipated in the Corporate Plan. The main contributor to the increase was higher loan interest revenue due to a larger loan book than projected.

Claims-related expenses for the first nine months of 2014 were $34 million higher than the Corporate Plan amount of $45 million. As a result of heightened risk in our political risk insurance portfolio there was an actuarial increase in the net allowance for claims on insurance that was not contemplated at the time of preparing the 2014 Corporate Plan. The impact was somewhat tempered by an adjustment to the frequency of claims assumption in our political risk insurance program which was also not contemplated when the Plan was prepared.

Other comprehensive income for the first nine months of 2014 decreased by $107 million when compared with the Corporate Plan due to the re-measurement of pension assets and liabilities. The discount rate used to value our pension obligation decreased in the first nine months of the year, while the Corporate Plan had projected that it would increase.

Financial Position

as at *(in millions of Canadian dollars)*	**Sept 2014** **Actual Results**	Sept 2014 Corporate Plan	Dec 2014 Corporate Plan
Cash and marketable securities	**5,305**	4,690	4,690
Derivative instruments	**443**	714	714
Loans receivable	**39,992**	34,864	35,654
Allowance for losses on loans	**(1,254)**	(1,192)	(1,198)
Other financing and leasing assets	**1,201**	1,308	1,324
Other assets	**403**	486	487
Total Assets	**$46,090**	$40,870	$41,671
Loans payable	**35,776**	31,016	31,589
Derivative instruments	**1,048**	575	575
Allowance for losses on loan commitments	**37**	55	59
Premium and claims liabilities	**607**	615	616
Other liabilities	**656**	649	666
Equity	**7,966**	7,960	8,166
Total Liabilities and Equity	**$46,090**	$40,870	$41,671

Loans receivable were $5.1 billion above Plan due to the weakening of the Canadian dollar which resulted in a $3 billion increase as the majority of our loan portfolio is denominated in U.S. dollars. In addition, net disbursements for both 2013 and 2014 were $1.9 billion higher than projected in the Plan as a result of increased financing activity.

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

NON-IFRS PERFORMANCE MEASURES

Claims Ratio – Credit Insurance Program

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

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

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

Net claims incurred includes claims paid net of recoveries and estimated recoveries of $24,320 thousand (2013 - $22,984 thousand) and a decrease in actuarial liabilities of $11,840 thousand (2013 - $33,996 thousand increase).

	Nine months ended	
(in thousands of Canadian dollars)	**Sept 2014**	Sept 2013
Direct premiums	**74,436**	78,285
Reinsurance assumed	**2,617**	5,000
Reinsurance ceded	**(4,632)**	(5,647)
Net written premium	**$72,421**	$77,638
Direct net claims incurred	**11,184**	55,560
Net claims incurred – reinsurance assumed	**1,640**	1,420
Net claims incurred – reinsurance ceded	**(344)**	-
Net claims incurred	**$12,480**	$56,980
Claims ratio %	**17.23%**	73.39%

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

Benoit Daignault,
President and CEO

Ken Kember,
Senior Vice-President and Chief Financial Officer

Ottawa, Canada
November 20, 2014

Export Development Canada
Condensed Consolidated Financial Statements

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

	as at			
	Sept 2014	Jun 2014	Dec 2013	Sept 2013
Assets				
Cash	**139**	163	127	70
Marketable securities:				
At fair value through profit or loss	**5,083**	5,382	3,859	3,440
At amortized cost	**83**	80	80	77
Derivative instruments (Note 7)	**443**	722	688	830
Aircraft held-for-sale (Note 5)	**16**	28	-	-
Loans receivable (Notes 2 and 3)	**39,992**	37,895	36,357	33,603
Allowance for losses on loans (Note 4)	**(1,254)**	(1,255)	(1,246)	(1,219)
Investments at fair value through profit or loss	**622**	583	537	519
Equipment available for lease (Note 5)	**353**	358	493	501
Net investment in aircraft under finance leases	**69**	69	76	75
Recoverable insurance claims (Note 6)	**65**	97	96	174
Reinsurers' share of premium and claims liabilities (Note 8)	**87**	99	93	89
Other assets	**127**	104	91	2,255
Property, plant and equipment	**55**	57	59	58
Intangible assets	**53**	50	44	41
Building under finance lease	**157**	158	162	164
Total Assets	**$46,090**	$44,590	$41,516	$40,677
Liabilities and Equity				
Accounts payable and other credits	**141**	118	144	1,152
Loans payable:				
Designated at fair value through profit or loss	**31,666**	31,545	29,108	28,763
At amortized cost	**4,110**	3,642	2,151	1,065
Derivative instruments (Note 7)	**1,048**	425	626	373
Obligation under finance lease	**167**	168	170	171
Retirement benefit obligations	**186**	153	128	181
Allowance for losses on loan commitments (Note 4)	**37**	41	47	43
Premium and claims liabilities (Note 8)	**607**	641	606	621
Loan guarantees	**162**	149	165	157
	38,124	36,882	33,145	32,526
Financing commitments (Note 2) and contingent liabilities (Note 9)				
Equity				
Share capital (Note 10)	**1,333**	1,333	1,333	1,333
Retained earnings	**6,633**	6,375	7,038	6,818
	7,966	7,708	8,371	8,151
Total Liabilities and Equity	**$46,090**	$44,590	$41,516	$40,677

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 20, 2014

Herbert M. Clarke
Director

Benoit Daignault
Director

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

	For the three months ended			For the nine months ended	
	Sept 2014	Jun 2014	Sept 2013	**Sept 2014**	Sept 2013
Financing and investment revenue:					
Loan (Note 14)	**305**	310	295	**924**	866
Finance lease	**1**	2	1	**4**	4
Operating lease	**10**	10	16	**38**	38
Marketable securities	**12**	11	8	**32**	24
Investments	**2**	2	1	**5**	7
Total financing and investment revenue	**330**	335	321	**1,003**	939
Interest expense (Note 15)	**21**	17	8	**50**	20
Leasing and financing related expenses	**7**	16	12	**34**	35
Net Financing and Investment Income	**302**	302	301	**919**	884
Loan Guarantee Fees	**8**	10	9	**26**	27
Insurance premiums and guarantee fees	**52**	55	51	**156**	155
Reinsurance assumed	**2**	2	3	**6**	9
Reinsurance ceded	**(5)**	(5)	(6)	**(16)**	(18)
Net Insurance Premiums and Guarantee Fees (Note 16)	**49**	52	48	**146**	146
Other (Income) Expenses (Note 19)	**6**	(20)	3	**(24)**	86
Administrative Expenses (Note 20)	**80**	81	74	**235**	226
Income before Provision and Claims-Related Expenses	**273**	303	281	**880**	745
Provision for (Reversal of) Credit Losses (Note 17)	**(32)**	(119)	99	**(2)**	(7)
Claims-Related Expenses (Recovery) (Note 18)	**10**	(52)	(2)	**79**	112
Net Income	**295**	474	184	**803**	640
Other comprehensive income (loss):					
Pension plan re-measurement	**(37)**	(42)	60	**(79)**	76
Comprehensive Income	**$258**	$432	$244	**$724**	$716

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 nine months ended	
	Sept 2014	Jun 2014	Sept 2013	**Sept 2014**	Sept 2013
Share Capital (Note 10)	**1,333**	1,333	1,333	**1,333**	1,333
Retained Earnings					
Balance beginning of period	**6,375**	5,943	6,574	**7,038**	7,542
Net income	**295**	474	184	**803**	640
Other comprehensive income (loss)					
Pension plan re-measurement	**(37)**	(42)	60	**(79)**	76
Dividends (Note 10)	**-**	-	-	**(1,129)**	(1,440)
Balance end of period	**6,633**	6,375	6,818	**6,633**	6,818
Total Equity at End of Period	**$7,966**	$7,708	$8,151	**$7,966**	$8,151

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

	For the three months ended			For the nine months ended	
	Sept 2014	Jun 2014	Sept 2013	**Sept 2014**	Sept 2013
Cash Flows from (used in) Operating Activities					
Net income	**295**	474	184	**803**	640
Adjustments to determine net cash from (used in) operating activities					
Provision for (reversal of) credit losses	**(32)**	(119)	99	**(2)**	(7)
Actuarial change in the net allowance for claims on insurance	**(31)**	(72)	(19)	**3**	39
Depreciation and amortization	**12**	12	17	**39**	49
Changes in operating assets and liabilities					
Change in accrued interest and fees receivable	**(21)**	(15)	(14)	**(53)**	(27)
Change in fair value of marketable securities	**15**	(15)	7	**-**	77
Change in fair value of loans payable	**(35)**	63	(15)	**15**	(183)
Change in derivative instruments receivable	**27**	(13)	(31)	**37**	252
Change in derivative instruments payable	**(517)**	161	253	**(281)**	(531)
Other	**29**	1,279	(1,100)	**43**	(1,136)
Loan disbursements	**(3,657)**	(4,271)	(3,387)	**(11,785)**	(9,696)
Loan repayments	**3,091**	3,497	2,302	**9,808**	7,238
Net cash from (used in) operating activities	**(824)**	981	(1,704)	**(1,373)**	(3,285)
Cash Flows from (used in) Investing Activities					
Disbursements for investments	**(34)**	(29)	(23)	**(99)**	(89)
Receipts from investments	**12**	21	7	**54**	17
Finance lease repayments	**3**	3	3	**10**	8
Purchases of marketable securities at fair value through profit or loss	**(11,076)**	(13,638)	(9,955)	**(40,539)**	(31,265)
Sales/maturities of marketable securities at fair value through profit or loss	**11,593**	13,389	10,326	**39,524**	31,958
Net cash from (used in) investing activities	**498**	(254)	358	**(1,050)**	629
Cash Flows from (used in) Financing Activities					
Issue of long-term loans payable - designated at fair value through profit or loss	**1,127**	1,489	3,283	**6,848**	7,022
Repayment of long-term loans payable - designated at fair value through profit or loss	**(1,928)**	(1,765)	(241)	**(6,507)**	(5,439)
Issue of long-term loans payable at amortized cost	**267**	1,198	-	**2,900**	-
Repayment of long-term payable at amortized cost	**3**	(1,097)	-	**(1,094)**	-
Issue of short-term loans payable - designated at fair value through profit or loss	**5,006**	6,546	5,924	**16,418**	16,847
Repayment of short-term loans payable - designated at fair value through profit or loss	**(4,728)**	(6,588)	(6,051)	**(15,332)**	(14,783)
Change in derivative instruments receivable	**258**	(4)	(86)	**207**	274
Change in derivative instruments payable	**294**	(78)	(104)	**121**	164
Dividend paid	**-**	(379)	(1,440)	**(1,129)**	(1,440)
Net cash from (used in) financing activities	**299**	(678)	1,285	**2,432**	2,645
Effect of exchange rate changes on cash	**3**	(5)	(2)	**3**	1
Net increase (decrease) in cash	**(24)**	44	(63)	**12**	(10)
Cash					
Beginning of period	**163**	119	133	**127**	80
End of period	**$139**	$163	$70	**$139**	$70
Operating Cash Flows from Interest					
Cash paid for interest on loans payable	**$26**	$37	$20	**$83**	$69
Cash received for interest on currency swaps related to capital	**$17**	$17	$19	**$51**	$56
Cash received for interest on loan assets and marketable securities	**$267**	$303	$260	**$841**	$792

Notes to the Condensed Consolidated Financial Statements

1. Significant Accounting Policies

Basis of Presentation

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

These condensed interim consolidated financial statements follow the same accounting policies and methods of computation as our audited consolidated financial statements for the year ended December 31, 2013. They should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2013 and the accompanying notes as set out on pages 86-139 of our 2013 Annual Report.

Use of Judgements and Estimates

The preparation of financial statements requires the use of judgment and estimates. Judgment is required in the selection of accounting policies, and their application requires the use of estimates and assumptions to arrive at the reported carrying values of our assets and liabilities. Areas where significant estimates are used include the allowance for losses on loans, loan commitments and guarantees, equipment available for lease, premium and claims liabilities, recoverable insurance claims, retirement benefit obligations and financial instruments measured at fair value. Refer to page 91 of our 2013 Annual Report for details.

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 third quarter of 2014.

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

The following standards and amendments issued by the IASB in the third quarter have not been early adopted and have been assessed as having a possible effect on EDC in the future. EDC is currently assessing the impact of these amendments on its consolidated financial statements:

IFRS 9 – Financial Instruments – In July 2014, the IASB issued the final version of IFRS 9, which completes the IASB's financial instruments project. The amended standard introduces an expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. Changes to the impairment model are highly relevant to EDC and will impact our allowance for losses on loans, loan commitments, and loan guarantees. This amendment is to be applied retrospectively for reporting periods beginning on or after January 1, 2018.

Annual Improvements to IFRS – 2012–2014 Cycle – In September 2014, the IASB issued annual improvements covering the following standards and topics: *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* addressing methods of disposal; *IFRS 7 Financial Instruments: Disclosures* providing additional guidance on servicing contracts and the applicability of the amendments to IFRS 7 to condensed interim financial statements; and *IAS 34 Interim Financial Reporting* addressing the disclosure of information elsewhere in the interim financial report. The annual improvements are to be applied for reporting periods beginning on or after January 1, 2016. The extent of the impact of the adoption of the annual improvements has not yet been determined.

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

2. Loans Receivable

(in millions of Canadian dollars)	**Sept 2014**	Jun 2014	Dec 2013	Sept 2013
Performing:				
Past due	**27**	20	9	24
Current year and beyond	**39,391**	37,556	35,941	33,101
Performing gross loans receivable	**39,418**	37,576	35,950	33,125
Individually impaired loans (Note 3)	**763**	494	599	656
Gross loans receivable	**40,181**	38,070	36,549	33,781
Accrued interest and fees receivable	**173**	154	154	165
Deferred loan revenue and other credits	**(362)**	(329)	(346)	(343)
Total loans receivable	**$39,992**	$37,895	$36,357	$33,603

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

(in millions of Canadian dollars)		**Sept 2014**		Jun 2014		Dec 2013		Sept 2013
	$	**% of total**	$	% of total	$	% of total	$	% of total
Investment grade	**22,368**	**56**	20,959	55	19,413	53	17,358	51
Below investment grade	**17,050**	**42**	16,617	44	16,537	45	15,767	47
Individually impaired loans (Note 3)	**763**	**2**	494	1	599	2	656	2
Total gross loans receivable	**$40,181**	**100**	$38,070	100	$36,549	100	$33,781	100

The following table shows our outstanding financing commitments by type:

(in millions of Canadian dollars)	**Sept 2014**	Jun 2014	Dec 2013	Sept 2013
Signed loan commitments	**14,022**	14,402	14,885	13,548
Letters of offer	**3,340**	3,966	4,499	4,444
Confirmed lines of credit	**113**	98	157	137
Total financing commitments	**$17,475**	$18,466	$19,541	$18,129

3. Individually Impaired Loans

(in millions of Canadian dollars)	**Sept 2014**	Jun 2014	Dec 2013	Sept 2013
Gross loans receivable				
Sovereign	**101**	81	81	79
Commercial	**662**	413	518	577
	763	494	599	656
Less: Deferred loan revenue and other credits	**36**	12	15	17
Individual allowance	**431**	337	345	355
Carrying amount of individually impaired loans	**$296**	$145	$239	$284

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

(in millions of Canadian dollars)	**Sept 2014**	Sept 2013
Balance at January 1	**599**	1,160
Loans classified as impaired	**414**	282
Capitalized interest	**24**	-
Disbursements on loan guarantees called	**18**	16
Loans reinstated to performing	**(172)**	(760)
Principal recoveries from asset sales	**(64)**	(5)
Loans written off	**(55)**	(19)
Principal repayments	**(33)**	(51)
Foreign exchange translation	**32**	33
Balance at September 30	**$763**	$656

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 2014**	Jun 2014	Dec 2013	Sept 2013
Base allowance				
Investment grade exposure	**99**	94	90	81
Non-investment grade exposure	**815**	910	864	833
Total base allowance	**914**	1,004	954	914
Counterparty concentration				
Investment grade exposure	**8**	6	4	3
Non-investment grade exposure	**34**	34	71	66
Total counterparty concentration	**42**	40	75	69
Total collective allowance*	**956**	1,044	1,029	983
Allowance for individually impaired loans, loan commitments and loan guarantees	**448**	354	379	385
Total allowance for losses on loans, loan commitments and loan guarantees	**$1,404**	$1,398	$1,408	$1,368

* *Includes allowance on finance leases of $4 million (June 2014 – $3 million, December 2013 – $10 million and September 2013 – $10 million).*

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

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

(in millions of Canadian dollars)	**Sept 2014**	Jun 2014	Dec 2013	Sept 2013
Allowance for losses on loans	**1,254**	1,255	1,246	1,219
Allowance for losses on loan commitments	**37**	41	47	43
Allowance for losses on loan guarantees*	**113**	102	115	106
Total	**$1,404**	$1,398	$1,408	$1,368

* *Included in the liability for loan guarantees.*

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

(in millions of Canadian dollars)	**Collective**	**Individual**	**Sept 2014 Total**	Collective	Individual	Sept 2013 Total
Balance at beginning of year	**1,029**	**379**	**1,408**	1,036	314	1,350
Provision for (reversal of) credit losses on loans, loan commitments and guarantees	**(111)**	**109**	**(2)**	(84)	77	(7)
Write-offs	**-**	**(50)**	**(50)**	-	(19)	(19)
Recovery of amounts written-off in prior years	**-**	**3**	**3**	-	1	1
Foreign exchange translation	**38**	**7**	**45**	31	12	43
Total	**$956**	**$448**	**$1,404**	$983	$385	$1,368

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)	**Sep 2014**	Jun 2014	Dec 2013	Sep 2013
Cost				
Aircraft	**293**	293	438	438
Engines	**100**	100	181	181
Major overhaul cost	**1**	1	16	16
Total cost	**394**	394	635	635
Accumulated depreciation and impairment				
Aircraft	**(34)**	(29)	(83)	(77)
Engines	**(6)**	(6)	(46)	(45)
Major overhaul cost	**(1)**	(1)	(14)	(13)
Total accumulated depreciation and impairment	**(41)**	(36)	(143)	(135)
Carrying amount	**353**	358	492	500
Lease setup costs	**-**	-	1	1
Total equipment available for lease	**$353**	$358	$493	$501

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)	**Sep 2014**				Sep 2013			
	Number of aircraft in portfolio	**Carrying amount**	**Number of aircraft on operating lease**	**Current lease term range**	Number of aircraft in portfolio	Carrying amount	Number of aircraft on operating lease	Current lease term range
Aircraft type								
CRJ200 Regional Jets	-	-	-	-	18	37	18	4 to 32 months
CRJ900 Regional Jets	-	-	-	-	8	92	8	89 to 92 months
Dash 8 – Q400*	**28**	**353**	**27**	**4 to 82 months**	28	372	26	82 to 94 months
Total portfolio	**28**	**$353**	**27**		54	$501	52	

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

In the first quarter of 2014, we reclassified 18 CRJ200 aircraft and 8 CRJ900 aircraft to the held-for-sale portfolio. In the second and third quarters of 2014, all 8 CRJ900s and 10 of the 18 CRJ200s have been sold resulting in gains of $49 million and $3 million, the impact of which is included in other (income) expenses. The sale of the remaining 8 CRJ200s is anticipated to occur by the end of the first half of 2015 and these aircraft are carried at $16 million in our held-for-sale portfolio (June 2014 – $28 million).

6. Recoverable Insurance Claims

(in millions of Canadian dollars)	**Sept 2014**	Sept 2013
Balance at January 1	**96**	200
Claims paid	**44**	48
Claims paid – reinsured policies	**8**	4
Claims recovered	**(9)**	(8)
Claims recovered – reinsured policies	**(1)**	-
Change in recoverable portion of cumulative claims paid	**(75)**	(71)
Foreign exchange translation	**2**	1
Balance at September 30	**$65**	$174

7. Derivative Instruments

We use a variety of derivative instruments to manage costs, returns and levels of financial risk associated with our funding, investment and risk management activities. Refer to page 110 of the 2013 Annual Report for a description of derivative instruments that we currently use and for information on how we manage credit, interest and foreign exchange risks arising from the use of derivatives.

All derivative counterparties must have a minimum credit rating of A- and any exception must be approved by the Board of Directors. At September 30, 2014 we hold derivatives with four counterparties (September 2013 – three counterparties) that have a rating below this requirement, the total fair value of which is negative $14 million (September 2013 – positive fair value of $21 million). These exceptions have been approved by the Board of Directors. We do not anticipate any significant non-performance by these counterparties.

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

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

(in millions of Canadian dollars)			**Sept 2014**			Dec 2013			Sept 2013
	Positive	**Negative**	**Total**	Positive	Negative	Total	Positive	Negative	Total
Cross currency interest rate swaps	**251**	**901**	**(650)**	508	526	(18)	603	281	322
Interest rate swaps	**144**	**32**	**112**	165	44	121	203	28	175
Foreign exchange swaps	**48**	**99**	**(51)**	14	33	(19)	19	43	(24)
Credit default swaps – protection purchased	**-**	**15**	**(15)**	1	22	(21)	1	21	(20)
Foreign exchange forwards	**-**	**1**	**(1)**	-	1	(1)	4	-	4
Total derivative instruments	**443**	**1,048**	**(605)**	688	626	62	830	373	457
Impact of netting agreements	**(260)**	**(260)**	**-**	(357)	(357)	-	(292)	(292)	-
Total	**$183**	**$788**	**$(605)**	$331	$269	$62	$538	$81	$457
Collateral received			**(65)**			(177)			(353)
Net amount			**$(670)**			$(115)			$104

8. Premium and Claims Liabilities

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

(in millions of Canadian dollars)					**Sept 2014**					Jun 2014					Dec 2013					Sept 2013
	CI	**FII**	**CIB**	**PRI**	**Total**	CI	FII	CIB	PRI	Total	CI	FII	CIB	PRI	Total	CI	FII	CIB	PRI	Total
Insurance	**121**	**-**	**67**	**419**	**607**	139	7	70	425	641	137	3	72	394	606	142	-	98	381	621
Reinsurance	**-**	**-**	**(1)**	**(86)**	**(87)**	(5)	(3)	(2)	(89)	(99)	(5)	(2)	(1)	(85)	(93)	(2)	-	-	(87)	(89)
Net liability	**$121**	**$-**	**$66**	**$333**	**$520**	$134	$4	$68	$336	$542	$132	$1	$71	$309	$513	$140	$-	$98	$294	$532

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

(in millions of Canadian dollars)	**Sept 2014**	Jun 2014	Dec 2013	Sept 2013
Deferred insurance premiums	**80**	89	96	88
Allowance for claims on insurance	**527**	552	510	533
Total premium and claims liabilities	**607**	641	606	621
Reinsurers' share of allowance for claims on insurance	**(76)**	(85)	(80)	(75)
Prepaid reinsurance	**(11)**	(14)	(13)	(14)
Reinsurers' share of premium and claims liabilities	**(87)**	(99)	(93)	(89)
Net premium and claims liabilities	**$520**	$542	$513	$532

In the second quarter, we implemented new frequency assumptions for our political risk insurance portfolio used in the calculation of the net allowance for claims on insurance. The difference between using the new assumptions and the former assumptions is a change in accounting estimate and will be disclosed at each reporting date during 2014. The change in estimate as at September 30, 2014 is a $78 million reduction in the allowance. This change in estimate also impacted claims-related expenses reported in Note 18. The impact on future periods has not yet been determined as it is impracticable to estimate.

9. Contingent Liabilities

As explained on page 90 of the 2013 Annual Report, we are subject to a limit imposed by the *Export Development Act* on our contingent liability arrangements. The limit is currently $45.0 billion. Our position against this limit is provided below:

(in millions of Canadian dollars)	**Sept 2014**	Jun 2014	Dec 2013	Sept 2013
Credit insurance	**8,872**	8,467	8,407	8,394
Financial institutions insurance	**4,529**	5,211	4,545	3,664
Contract insurance and bonding	**8,165**	8,111	8,322	8,460
Political risk insurance	**1,687**	1,639	1,683	1,587
Reinsurance ceded*	**(150)**	(150)	(150)	(150)
Contingent liabilities – insurance program	**23,103**	23,278	22,807	21,955
Loan guarantees	**2,102**	1,994	2,091	2,032
Total	**$25,205**	$25,272	$24,898	$23,987

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

10. Share Capital

EDC's authorized share capital is $3.0 billion consisting of 30 million shares with a par value of $100 each. The number of shares issued and fully paid is 13.3 million (2013 – 13.3 million). In the first half of 2014, a dividend of $1.129 billion was paid to the Government of Canada (2013 – $1.44 billion).

11. Capital Management

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

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

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

(in millions of Canadian dollars)	**Sept 2014**	Jun 2014	Dec 2013	Sept 2013
Allowance for losses on loans	**1,254**	1,255	1,246	1,219
Allowance for losses on loan commitments	**37**	41	47	43
Allowance for losses on loan guarantees	**113**	102	115	106
Allowance for claims on insurance	**527**	552	510	533
Reinsurers' share of allowance for claims on insurance	**(76)**	(85)	(80)	(75)
Share capital	**1,333**	1,333	1,333	1,333
Retained earnings	**6,633**	6,375	7,038	6,818
Supply of capital	**$9,821**	$9,573	$10,209	$9,977

12. Fair Value of Financial Instruments

Fair value represents our estimation of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For a full description of our controls, policies and valuation techniques surrounding fair value of financial instruments refer to Note 28 on page 124 of the 2013 Annual Report.

As with any estimate, uncertainty is inherent due to the unpredictability of future events. In the case of estimating the fair value of our financial instruments, this uncertainty is magnified due to the large number of assumptions used and the wide range of acceptable valuation techniques. Estimates of fair values are based on market conditions at a certain point in time, and may not be reflective of future market conditions. Therefore, the estimates of the fair value of financial instruments outlined as follows do not necessarily reflect the actual values that may occur should the instruments be exchanged in the market.

(in millions of Canadian dollars)		**Sept 2014**		Jun 2014
	Carrying value	**Fair value**	Carrying value	Fair value
Assets				
Performing fixed rate loans*	**8,712**	**9,102**	8,487	9,146
Performing floating rate loans*	**29,734**	**30,642**	28,011	29,274
Total performing loans receivable*	**38,446**	**39,744**	36,498	38,420
Impaired loans	**296**	**296**	145	145
Loans receivable and accrued interest and fees	**38,742**	**40,040**	36,643	38,565
Marketable securities:				
At fair value through profit or loss	**5,083**	**5,083**	5,382	5,382
At amortized cost	**83**	**82**	80	80
Derivative instruments	**443**	**443**	722	722
Investments at fair value through profit or loss	**622**	**622**	583	583
Recoverable insurance claims	**65**	**65**	97	97
Other assets	**127**	**127**	104	106
Liabilities				
Accounts payable and other credits	**141**	**147**	118	124
Loans payable:				
Designated at fair value through profit or loss	**31,666**	**31,666**	31,545	31,545
At amortized cost	**4,110**	**4,110**	3,642	3,652
Derivative instruments	**1,048**	**1,048**	425	425
Loan guarantees	**162**	**129**	149	117

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

Unobservable Inputs

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

(in millions of Canadian dollars)

Valuation technique	Unobservable input	Range (weighted average)	Fair value at Sept 2014[1]
Liquidity discount	Discount rate	10% – 35% (26%)	34
Sales Multiple	Multiple of Sales	1.0 – 6.0 (3.1)	16
EBITDA Multiple[2]	Multiple of EBITDA	8.0 – 9.9 (9.6)	15
Discounted cash flows	Discount rate	18% (18%)	4

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

For the purpose of estimating their fair value, recoverable insurance claims are separated into groups of estimated time to recovery. Generally the time to recovery of insurance claims will be relatively short; for these, the fair value is considered to be equal to the expected future cash flows. For insurance claims where the recovery is expected to occur over a longer period, we calculate the net present value of the expected cash flows using a discount rate appropriate for the claim. EDC's unobservable estimate for recoverable insurance claims is outlined in the table below:

(in millions of Canadian dollars)

Valuation technique	Unobservable input	Range	Fair value at Sept 2014
Discounted cash flows	Probability of recovery	0% – 100%	$65

Fair Value Hierarchy

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

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

(in millions of Canadian dollars)				**Sept 2014**				Jun 2014
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Assets								
Performing fixed rate loans	**-**	**8,646**	**456**	**9,102**	-	8,496	650	9,146
Performing floating rate loans	**-**	**30,445**	**197**	**30,642**	-	28,757	517	29,274
Total performing loans receivable	**-**	**39,091**	**653**	**39,744**	-	37,253	1,167	38,420
Impaired loans	**-**	**296**	**-**	**296**	-	145	-	145
Loans receivable and accrued interest and fees	**-**	**39,387**	**653**	**40,040**	-	37,398	1,167	38,565
Marketable securities:								
At fair value through profit or loss	**2,893**	**2,190**	**-**	**5,083**	2,863	2,519	-	5,382
At amortized cost	**82**	**-**	**-**	**82**	80	-	-	80
Derivative instruments	**-**	**378**	**65**	**443**	-	661	61	722
Investments at fair value through profit or loss	**6**	**-**	**616**	**622**	8	-	575	583
Recoverable insurance claims	**-**	**-**	**65**	**65**	-	-	97	97
Other assets	**79**	**48**	**-**	**127**	57	49	-	106
Liabilities								
Accounts payable and other credits	**95**	**52**	**-**	**147**	72	52	-	124
Loans payable:								
Designated at fair value through profit or loss	**-**	**31,389**	**277**	**31,666**	-	31,283	262	31,545
At amortized cost	**-**	**4,110**	**-**	**4,110**	-	3,652	-	3,652
Derivative instruments	**-**	**1,048**	**-**	**1,048**	-	425	-	425
Loan guarantees	**-**	**129**	**-**	**129**	-	117	-	117

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

(in millions of Canadian dollars)					**Sept 2014**
	Recoverable insurance claims	**Investments at fair value through profit or loss**	**Loans payable designated at fair value through profit or loss**	**Derivative instruments**	**Total**
Balance at beginning of year	**96**	**526**	**(241)**	**43**	**424**
Decrease in recoverable insurance claims	**(30)**	**-**	**-**	**-**	**(30)**
Accrued interest	**-**	**-**	**(9)**	**9**	**-**
Unrealized gains (losses) included in other (income) expenses	**-**	**23**	**(13)**	**10**	**20**
Purchases of assets/issuances of liabilities	**-**	**99**	**-**	**-**	**99**
Return of capital	**-**	**(36)**	**-**	**-**	**(36)**
Transfers out of Level 3	**-**	**(13)**	**-**	**-**	**(13)**
Foreign exchange translation	**(1)**	**17**	**(14)**	**3**	**5**
Balance at end of period	**$65**	**$616**	**$(277)**	**$65**	**$469**
Total gains (losses) for the first nine months of 2014 included in comprehensive income for instruments held at the end of the quarter	**$33**	**$31**	**$(22)**	**$18**	**$60**

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

For the quarter ended September 30, 2014, a sensitivity analysis was performed using possible alternative assumptions to recalculate the fair value of our Level 3 financial instruments. The fair value of Level 3 financial instruments is in whole or in part based on unobservable inputs. In preparing financial statements, appropriate levels for these unobservable input parameters are chosen so that they are consistent with prevailing market evidence or management judgment.

In order to perform our sensitivity analysis, we adjusted the yield curve and volatility assumptions used to value our Level 3 loans payable and derivative assets. The results of our analysis on our Level 3 loans payable ranged from an unfavourable change of $8 million to a favourable change of $17 million. On our Level 3 derivative assets the impact ranged from an unfavourable change of $13 million to a favourable change of $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: rate of returns, liquidity discount, multiple of EBITDA. When multiple unobservable inputs are shocked, no netting is considered, resulting in the highest favourable or unfavourable change. The results of our analysis on our Level 3 investments ranged from an unfavourable change of $26 million to a favourable change of $11 million.

The unobservable input used in the fair value measurement of the recoverable insurance claims is the probability of recovery. In order to perform our sensitivity analysis, we adjusted the probability of recovery used to value our Level 3 recoverable insurance claims. The results of our analysis ranged from an unfavourable change of $35 million to a favourable change of $46 million.

13. Financial Instrument Risks

The principal risks that we are exposed to as a result of holding financial instruments are credit, market and liquidity risk. For a full description of our objectives, policies and processes for managing financial instrument risk refer to management's discussion and analysis on pages 71 to 74 and notes related to our derivative instruments and debt instruments of the 2013 Annual Report.

Credit Risk

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

Concentration of Credit Risk

The following table provides a breakdown, by the country in which the risk resides, of the maximum exposure to credit risk of financial instruments. The exposure includes gross loans receivable, loan guarantees, investments at fair value through profit or loss, marketable securities, derivative assets and cash. The concentration of credit risk exposure provided below also includes the impact of unfunded loan participations and loan default insurance, which we use to mitigate credit risk within the loan portfolio.

(in millions of Canadian dollars)		**Sept 2014 Exposure**		Jun 2014 Exposure		Dec 2013 Exposure		Sept 2013 Exposure
Country	**$**	**%**	$	%	$	%	$	%
United States	**13,757**	**28**	13,425	28	11,714	27	11,439	27
Canada	**6,781**	**14**	6,970	15	6,367	14	6,449	16
Brazil	**2,999**	**6**	2,390	5	2,388	5	2,438	6
Mexico	**2,581**	**5**	2,491	5	2,358	5	2,121	5
Australia	**2,409**	**5**	2,237	5	2,221	5	2,007	5
United Kingdom	**2,196**	**5**	2,272	5	2,734	6	1,733	4
India	**1,718**	**4**	1,472	3	1,558	4	1,539	4
Chile	**1,685**	**3**	1,683	4	1,247	3	1,049	3
Saudi Arabia	**1,016**	**2**	884	2	731	2	654	2
China	**876**	**2**	668	1	617	1	287	1
Other	**12,635**	**26**	12,502	27	11,996	28	11,033	27
Total	**$48,653**	**100**	$46,994	100	$43,931	100	$40,749	100

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

(in millions of Canadian dollars)		**Sept 2014 Exposure**		Jun 2014 Exposure		Dec 2013 Exposure		Sept 2013 Exposure
Industry	**$**	**%**	$	%	$	%	$	%
Commercial:								
Extractive	**13,703**	**28**	12,415	27	11,456	26	10,582	26
Aerospace	**11,346**	**23**	10,923	23	10,948	25	10,495	26
Surface transportation	**4,293**	**9**	4,297	9	4,406	10	4,359	11
Financial institutions	**3,940**	**8**	4,350	9	3,413	8	2,735	7
Information and communication technology	**3,605**	**8**	3,697	8	3,994	9	3,013	7
Infrastructure and environment	**3,578**	**7**	3,474	7	3,303	7	3,249	8
Other	**2,577**	**5**	2,418	5	2,044	5	2,092	5
Total commercial	**43,042**	**88**	41,574	88	39,564	90	36,525	90
Sovereign	**5,611**	**12**	5,420	12	4,367	10	4,224	10
Total	**$48,653**	**100**	$46,994	100	$43,931	100	$40,749	100

14. Loan Revenue

	Three months ended			Nine months ended	
(in millions of Canadian dollars)	**Sept 2014**	Jun 2014	Sept 2013	**Sept 2014**	Sept 2013
Loan interest					
Floating rate	**164**	164	147	**491**	421
Fixed rate	**97**	99	98	**297**	294
Loan fee revenue	**42**	45	39	**129**	116
Impaired revenue	**-**	-	8	**2**	27
Other	**2**	2	3	**5**	8
Total loan revenue	**$305**	$310	$295	**$924**	$866

15. Interest Expense

(in millions of Canadian dollars)	Three months ended **Sept 2014**	Three months ended Jun 2014	Three months ended Sept 2013	Nine months ended **Sept 2014**	Nine months ended Sept 2013
Loans payable designated at fair value through profit or loss and related derivatives					
Short-term payables	**7**	8	6	**22**	16
Long-term payables – floating	**20**	20	17	**60**	54
Long-term payables – fixed*	**(2)**	(3)	(8)	**(15)**	(24)
Loans payable carried at amortized cost					
Long-term payables – fixed	**11**	9	9	**31**	25
Total interest expense on loans payable and related derivatives	**36**	34	24	**98**	71
Interest income on currency swaps related to capital	**(17)**	(17)	(18)	**(51)**	(55)
Other	**2**	-	2	**3**	4
Total interest expense	**$21**	$17	$8	**$50**	$20

* *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.

16. Net Insurance Premiums and Guarantee Fees

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

(in millions of Canadian dollars)	Three months ended **Sept 2014**					Jun 2014					Sept 2013				
	CI	**FII**	**CIB**	**PRI**	**Total**	CI	FII	CIB	PRI	Total	CI	FII	CIB	PRI	Total
Direct premiums	**26**	**6**	**12**	**8**	**52**	27	7	13	8	55	26	5	13	7	51
Reinsurance assumed	**1**	**-**	**1**	**-**	**2**	1	-	-	1	2	1	-	2	-	3
Reinsurance ceded	**(2)**	**-**	**-**	**(3)**	**(5)**	(1)	-	-	(4)	(5)	(2)	-	(1)	(3)	(6)
Net insurance premiums and guarantee fees	**$25**	**$6**	**$13**	**$5**	**$49**	$27	$7	$13	$5	$52	$25	$5	$14	$4	$48

(in millions of Canadian dollars)	Nine months ended **Sept 2014**					Sept 2013				
	CI	**FII**	**CIB**	**PRI**	**Total**	CI	FII	CIB	PRI	Total
Direct premiums	**76**	**19**	**37**	**24**	**156**	80	16	36	23	155
Reinsurance assumed	**3**	**-**	**2**	**1**	**6**	5	-	3	1	9
Reinsurance ceded	**(5)**	**-**	**(1)**	**(10)**	**(16)**	(6)	-	(2)	(10)	(18)
Net insurance premiums and guarantee fees	**$74**	**$19**	**$38**	**$15**	**$146**	$79	$16	$37	$14	$146

17. Provision for (Reversal of) Credit Losses

	Three months ended			Nine months ended	
(in millions of Canadian dollars)	**Sept 2014**	Jun 2014	Sept 2013	**Sept 2014**	Sept 2013
Credit migration	**(1)**	(85)	90	**(8)**	4
Changes in portfolio composition*	**(32)**	(20)	9	**13**	(2)
Updates to independent variables:					
Decreased (increased) concentration threshold	**-**	-	-	**6**	(8)
Transaction specific loss given default	**-**	(10)	-	**(10)**	-
Other	**1**	(4)	-	**(3)**	(1)
Provision for (reversal of) credit losses	**$(32)**	$(119)	$99	**$(2)**	$(7)

* *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			Nine months ended	
(in millions of Canadian dollars)	**Sept 2014**	Jun 2014	Sept 2013	**Sept 2014**	Sept 2013
Provision for (reversal of) credit losses on loans	**(36)**	(106)	95	**14**	16
Provision for (reversal of) losses on loan commitments	**(5)**	2	(4)	**(12)**	(17)
Provision for (reversal of) losses on loan guarantees	**9**	(15)	8	**(4)**	(6)
Provision for (reversal of) credit losses	**$(32)**	$(119)	$99	**$(2)**	$(7)

18. Claims-Related Expenses (Recovery)

	Three months ended			Nine months ended	
(in millions of Canadian dollars)	**Sept 2014**	Jun 2014	Sept 2013	**Sept 2014**	Sept 2013
Claims paid	**8**	22	13	**44**	48
Claims paid – reinsured policies	**-**	5	1	**8**	4
Claims recovered	**(2)**	(5)	(2)	**(9)**	(8)
Claims recovered – reinsured policies	**-**	(1)	-	**(1)**	-
Actuarial increase/(decrease) in the net allowance for claims on insurance	**(31)**	(72)	(19)	**3**	39
(Increase)/decrease in recoverable insurance claims	**34**	(1)	4	**33**	27
Claims handling expenses	**1**	-	1	**1**	2
Total claims-related expenses (recovery)	**$10**	$(52)	$(2)	**$79**	$112

19. Other (Income) Expenses

	Three months ended			Nine months ended	
(in millions of Canadian dollars)	**Sept 2014**	Jun 2014	Sept 2013	**Sept 2014**	Sept 2013
Net unrealized (gain) loss on loans payable designated at fair value through profit or loss	**(21)**	64	(3)	**5**	(176)
Net unrealized loss on derivatives related to loans payable	**36**	3	23	**64**	222
Net realized and unrealized (gain) loss on marketable securities at fair value through profit or loss	**9**	(16)	(3)	**(10)**	36
(Gain) loss on sale of aircraft	**(3)**	(49)	-	**(52)**	8
Net realized and unrealized (gain) on investments at fair value through profit or loss	**(7)**	(23)	(8)	**(31)**	(8)
Foreign exchange translation (gain) loss	**(4)**	(2)	(8)	**4**	(4)
Other	**(4)**	3	2	**(4)**	8
Total other (income) expenses	**$6**	$(20)	$3	**$(24)**	$86

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 September 30, 2014, the net unrealized loss on our loans payable and associated derivatives totalled $15 million compared to a loss of $67 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 September 30, 2014, the credit adjusted rates relevant to the valuation of derivatives had larger increases than the rates applicable to loans payable, leading to losses on our derivatives compared to gains on our loans payable.

Our marketable securities portfolio is highly sensitive to long-term U.S. Treasury rates. For the three months ended September 30, 2014, the net realized and unrealized loss on marketable securities was $9 million compared to a gain of $16 million for the previous quarter, which is a reflection of the increase in long-term U.S. Treasury rates during the quarter compared to a decrease of these rates in the previous quarter.

In the third quarter of 2014, net realized and unrealized gains on investments at fair value through profit or loss decreased from $23 million to $7 million. The decrease is primarily due to a $20 million decrease in unrealized gains, as the portfolio investments did not perform as strongly as in the previous quarter. We also realized gains of $5 million during the quarter from selling shares of 4 direct investments and fund distributions received from 5 funds ($3 million in the second quarter).

20. Administrative Expenses

	Three months ended			Nine months ended	
(in millions of Canadian dollars)	**Sept 2014**	Jun 2014	Sept 2013	**Sept 2014**	Sept 2013
Salaries and benefits	**42**	44	38	**127**	120
Pension, other retirement and post-employment benefits	**10**	10	12	**29**	36
Accommodation	**7**	6	7	**20**	21
Amortization and depreciation	**6**	5	6	**17**	19
Other	**15**	16	11	**42**	30
Total administrative expenses	**$80**	$81	$74	**$235**	$226

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 2014**	Jun 2014	Sept 2013	**Sept 2014**	Sept 2013
Pension benefit expense	**7**	6	8	**19**	24
Other post-employment benefit and severance expense	**3**	4	4	**10**	12
	$10	$10	$12	**$29**	$36

21. Related Party Transactions

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