

## CREDIT OPINION

8 March 2024

Update



### RATINGS

#### Export Development Canada

Domicile	Ottawa, Ontario, Canada
Long Term CRR	Not Assigned
Long Term Issuer Rating	Aaa
Type	Insurance Financial Strength - Dom Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## Export Development Canada

Update following ratings affirmation

### Summary

[Export Development Canada](#) (EDC), Canada's export credit agency, is rated Aaa for its long-term senior unsecured obligations and Prime-1 for commercial paper, reflecting its status as an Agent of His Majesty in right of [Canada](#) (Aaa stable). As a Crown Corporation with Agent status, EDC can bind the Government of Canada by its actions, with the government fully liable for actions undertaken by EDC within its mandate. As such, EDC's obligations constitute direct obligations of Canada and accordingly EDC's ratings are at the same level as the Government of Canada's ratings.

EDC also has an insurance financial strength (IFS) rating of Aaa, which reflects its agency status. Under its constituting legislative act - the Export Development Act - EDC is expressly empowered to enter into any arrangement that has the effect of providing, to any person, any insurance, reinsurance, indemnity, or guarantee.

### Credit strengths

- » Full faith and credit of the Government of Canada

### Credit challenges

- » Same as those for the Government of Canada: relatively high general government debt burden

### Outlook

Consistent with Canada's outlook, our ratings outlook for EDC is stable.

### Factors that could lead to an upgrade

- » As we assign the highest ratings to EDC, upgrades are not possible.

### Factors that could lead to a downgrade

- » The key driver of a downgrade for EDC's ratings would be any negative rating actions with respect to the Government of Canada. EDC's ratings would also likely be lowered should it ever lose its status as an Agent; however, even in this scenario, the benefits of Agent status would likely remain fully applicable to all debt entered into by EDC before the date of such revocation.

## Profile

EDC is Canada's export credit agency and was established as a Crown Corporation by an Act of Parliament in 1969. It reports to the Canadian Parliament through the Minister of Export Promotion, International Trade and Economic Development. EDC's mandate is to support and develop Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities. To fulfill this mandate, EDC provides trade finance and risk mitigation services to Canadian companies involved in export trade. EDC also provides export credit insurance to protect against uncontrollable events such as a buyer refusing to pay. EDC operates on a commercial basis which allows it to be financially self-sufficient.

The company has two major lines of business:

**Export Financing** - EDC provides loans to buyers of Canadian goods and services (e.g., a loan to a U.S. airline to purchase Canadian made regional jets). It also provides loan guarantees to Canadian banks that lend to buyers of Canadian goods and services, and has a small portfolio of equity investments in Canadian exporters; and,

**Export Insurance** - EDC provides credit insurance, international trade guarantees, and political risk insurance to Canadian exporters. With respect to credit insurance, EDC protects exporters of goods and services trading on credit terms of up to a year against nonpayment due to commercial and political risks. With respect to international trade guarantees, EDC provides cover for sales on exposure terms usually greater than one year and includes export credit insurance and guarantees, performance guarantees and surety, extending cover for risks inherent in performance-related obligations. EDC also provides a fairly limited amount of political risk insurance for equity and other investments abroad.

The nature of EDC's business exposes it to diverse commercial and sovereign risks, all of which are ultimately underwritten by the Canadian government. As of 30 September 2023, EDC had CAD73 billion in assets and CAD13.1 billion in shareholders equity, with net income for the first nine months ended 30 September of CAD635 million.

## Canada

For details on the credit considerations for the Government of Canada, please see our latest credit opinion for [Government of Canada](#).

## Detailed credit considerations

The Aaa/Prime-1 ratings of EDC's obligations reflect the application of our rating methodology for government-related issuers (GRIs). Since EDC's status as an Agent makes its obligations direct obligations of the Government of Canada, we do not assign an independent baseline credit assessment but instead BDC's ratings are assigned at the same level as the Government of Canada's ratings.

## Insurance claims

Under its powers in the Export Development Act the corporation may "enter into any arrangement that has the effect of providing, to any person, any insurance, reinsurance, indemnity, or guarantee". The legislative means by which EDC meets its insurance obligations (for which liability is admitted) come out of Section 15 of the Export Development Act: "The Corporation may establish one or more reserves or provisions out of which may be paid any losses sustained by the Corporation in the conduct of its business". The actual legislative process for adjudicating claims is not identical to meeting debt obligations. An admitted insurance claim would not have immediate access to the Consolidated Revenue Fund. However, we do not view this as a major credit challenge because we believe that the Canadian government would support EDC as required, given its Agent status.

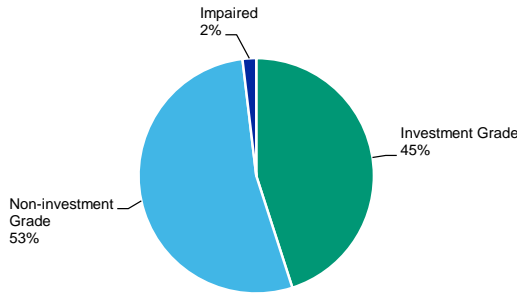
## Financial position and performance

As a result of EDC's mandate to promote private sector trade in Canada, it assumes more risk than typical private sector providers of trade credit and insurance. The Crown Corporation has significant counterparty concentrations (their top 5 names represent about 10% of total commercial exposures at the end of 2022, the most recent data available at publication) and substantial non-investment grade exposures (Exhibit 1).

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

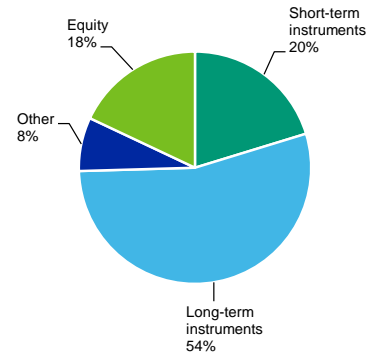
EDC funds itself primarily through capital markets financing instruments such as short-term commercial paper and medium-term notes (Exhibit 2), which are issued in multiple currencies. EDC's status as an agency Crown Corporation means these obligations have the same creditworthiness as the Government of Canada under Canadian law.

**Exhibit 1**  
**EDC's lending portfolio is split between investment and non-investment grade**  
**As of 30 September 2023**



EDC's portfolio includes gross loans, loan commitments and loan guarantees. Credit quality is determined by EDC's internal credit quality assessment methodology.  
 Source: Moody's Ratings, company financials

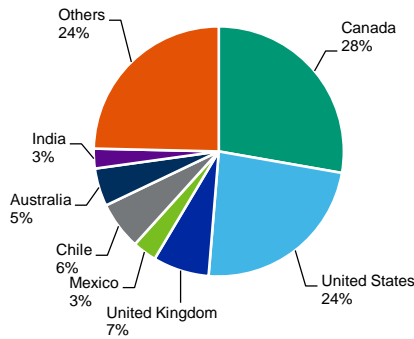
**Exhibit 2**  
**EDC's lending is predominantly funded through capital markets**  
**As of 31 December 2022**



Source: Moody's Ratings, company financials

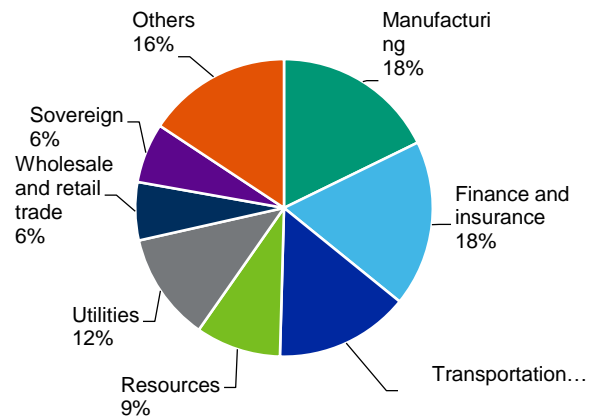
EDC's risk exposure, which includes its financing, insurance and investment portfolios, is geographically concentrated in the US, largely reflecting Canada's trade relationship with its southern neighbour (Exhibit 3). By sector, EDC's largest three exposures are in the manufacturing, financial institutions, and transportation and storage sectors (Exhibit 4).

**Exhibit 3**  
**EDC's risk exposure with the US largely consistent with Canada's trade relationship**  
**As of 31 December 2022**



Risk exposure includes EDC's financing portfolio, insurance portfolio, investments and derivatives  
 Source: Moody's Ratings, company financials

**Exhibit 4**  
**EDC's largest industry sector exposure is manufacturing followed by financial institutions, and transportation and storage**  
**As of 31 December 2022**



Source: Moody's Ratings, company financials

EDC is well capitalized with shareholders' equity accounting for approximately 18% of total assets as of 30 September 2023. The Crown Corporation uses an Internal Capital Adequacy Assessment Process (ICAAP) to establish capital demand targets required to cover potential losses, with EDC monitoring its capital supply relative to this demand. In the past, the EDC has received capital

injections from the Canadian government to support its business activity, with most of this capital being returned to the Canadian government through dividends. In 2022, EDC did not pay any dividends, which compares to CAD7.3 billion of dividends paid in 2021.

The Export Development Act requires the Crown Corporation to maintain borrowings below 15 times the total of current paid-in capital and prior year retained earnings. The maximum amount allowed as of 31 December 2022 was CAD162.5 billion and EDC borrowed CAD50.6 billion against this amount. In addition, the ACT limits contingent liabilities such as insurance policies and loan guarantees to CAD90 billion and EDC's position against this limit was CAD39.9 billion as of 30 September 2023.

### Governance and management

EDC's corporate governance structure is set out in the Export Development Act. Members of the board are appointed by the Minister of Export Promotion, International Trade and Economic Development with the federal cabinet effectively appointing EDC's President and Chairman of the Board, which are positions always held by separate individuals.

EDC issues ownership shares, all of which must be owned by the federal government. These ownership shares are non-transferable. EDC largely operates independent of direct political involvement. Whereby the Minister of Export Promotion, International Trade and Economic Development deems a transaction to be in the national interest of Canada and EDC has declined to enter into said transaction, the transaction will be segregated from EDC's accounts, and funded directly by the Canadian government. However, the transaction will be managed by EDC under its mandate. These 'Canada Account' transactions totaled CAD58.5 billion as of 31 December 2022.

### Environmental, social and governance (ESG) considerations

For details on our ESG assessment for the Government of Canada, please see our credit opinion for [Government of Canada](#).

## Ratings

Exhibit 5

Category	Moody's Rating
<b>EXPORT DEVELOPMENT CANADA</b>	
Outlook	Stable
Insurance Financial Strength -Dom Curr	Aaa
Issuer Rating -Dom Curr	Aaa
Senior Unsecured	Aaa
Commercial Paper	P-1
Other Short Term	(P)P-1

Source: Moody's Investors Service

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