



2019

Financial Report

First Quarter

June 30, 2018



Executive Summary

The Canadian economy is running at close to full capacity and grew at an annualized rate of 1.3% between January and March 2018, driven by growth in business investment. The national unemployment rate remains relatively low at 6.0%, very close to the lowest level ever recorded. While still showing expansion, average weekly wages rose at a slower pace in April, compared to the prior months.

The uncertain economic outlook in Canada limited the Bank of Canada to one rate hike in the first half of 2018, with the policy rate at 1.25% as at June 30, 2018.

Global economic activity remains strong, supporting Canada's export sector. The U.S. economy is expected to grow at an annualized rate of 2.9% in 2018. In light of both this and inflationary concerns, the Federal Reserve has raised its policy rate to 2%, creating a larger interest rate differential with Canada. This has led to a depreciation of the loonie versus the U.S. dollar.

Commodity prices rose in the last quarter. In particular, the price of West Texas Intermediate (WTI) oil averaged US\$68 per barrel during the quarter, up 7% compared to last quarter. Western Canadian Select saw an upswing, rising 41% from last quarter. The slowdown in production, a return to normal capacity output from the Keystone pipeline and the greater certainty over the construction of the Trans Mountain pipeline, now owned by the Government of Canada, have all helped to drive the price higher.

Canada's economy is performing well and business confidence remains positive, according to the Bank of Canada's most recent *Business Outlook Survey*.⁽¹⁾ However, there are two significant risks to the economy: tariffs and household debt.

Rising protectionist actions in the United States present risks for the Canadian economy, given that the U.S. is Canada's largest trading partner, accounting for roughly 70% of our exports of goods and services. The uncertainty related to the renegotiation of NAFTA may also have an impact on business investment in Canada, though the Bank of Canada's recent survey shows investment intentions remain buoyant.

The high consumer debt ratio⁽²⁾ remains a risk for the Canadian economy, especially in the context of rising interest rates.

Business credit conditions eased slightly in the last quarter according to the Bank of Canada's *Senior Loan Officer Survey*.⁽³⁾ However, lending conditions for small business borrowers have remained unchanged since the end of 2016.

⁽¹⁾ Bank of Canada, Business Outlook Survey, Summer 2018 Survey, June 29, 2018.

⁽²⁾ Consumer debt to disposable income is very high at 170% as of March 31, 2018.

⁽³⁾ Bank of Canada, Senior Loan Officer Survey – Second Quarter of 2018, June 29, 2018.



BDC's volume of activity slowed slightly in the first quarter of fiscal 2019, compared to last year. For the three-month period ended June 30, 2018, clients of Financing⁽¹⁾ accepted loans for a total of \$2.1 billion, compared to \$2.2 billion for the same period last year. Financing's loans portfolio⁽²⁾ stood at \$25.1 billion as at June 30, 2018, a 2.7% increase since March 31, 2018.

In June, BDC announced that it had partnered with Export Development Canada (EDC) to provide \$50 million funding over two years to Canadian tech businesses involved in exporting. Through the partnership, tech companies engaged in or planning to engage in international business can access loans of up to \$1 million. Companies looking to receive funding must derive at least 50% of their sales from exports or have an export strategy that the loan will support.

Advisory Services achieved strong results during the three-month period ended June 30, 2018, with net contracts signed amounting to \$7.7 million, for a 15% increase compared to the same period last year. Revenues also recorded solid growth, totalling \$6.3 million in the first quarter of fiscal 2019, an increase of 39%, compared to the same period of fiscal 2018.

During the quarter ended June 30, 2018, clients of Growth & Transition Capital (G&TC) accepted \$86.5 million in financing, compared to \$114.2 million for the same period last year. Following a high level of activity in the last quarter of fiscal 2018, the volume of acceptances tapered off in the first quarter of fiscal 2019, as expected.

Venture Capital authorized investments totalling \$39.4 million in the first quarter of fiscal 2019, compared to \$55.1 million for the same period last year. The decrease in authorizations was mainly due to lower indirect investments.

During the first quarter of fiscal 2019, BDC continued to invest in cleantech companies and disbursed an additional \$17 million, bringing the total invested amount to \$27 million as at June 30, 2018.

In June, the Government of Canada announced the first round of investments under the Venture Capital Catalyst Initiative (VCCI), to be managed by BDC. As announced in Federal Budget 2017, \$400 million will be made available to increase the availability of late-stage venture capital in Canada through VCCI. This investment will be used to leverage private capital up to a total pool of \$1.5 billion. Under this first stream of VCCI, investments will be made in five new large funds-of-funds that will, in turn, invest in venture capital funds on a national scale.

Starting in fiscal 2019, Venture Capital Action Plan (VCAP) and the new Venture Capital Catalyst Initiative (VCCI), two government-sponsored programs managed by BDC, are now presented as one business segment under the Venture Capital Incentive Programs (VCIP).

In June 2018, BDC paid a dividend of \$69.7 million to its shareholder, the Government of Canada.

In the first quarter of fiscal 2019, BDC posted a strong consolidated net income of \$221.0 million, compared to \$145.7 million for the same period last year. The favourable variance compared to fiscal 2018 was mostly attributable to Financing's portfolio growth, Venture Capital's results, and to a higher net change in unrealized fair value appreciation of VCIP investments.

Effective the first quarter of 2019, BDC adopted IFRS 9, *Financial Instruments* and applied the exemption whereby comparative information has not been restated. Refer to the Analysis of Financial Results section of the Management Discussion and Analysis for more details on the financial impact of applying the new impairment model.

⁽¹⁾ Unless otherwise indicated, Financing excludes Growth & Transition Capital.

⁽²⁾ Before allowance for credit losses.



The Business Development Bank of Canada (BDC) is a Crown corporation wholly owned by the Government of Canada.

BDC is the only bank devoted exclusively to Canadian entrepreneurs. It promotes entrepreneurship with a focus on small and medium-sized businesses. With more than 110 business centres from coast to coast, BDC provides businesses with financing, investment and advisory services.

When entrepreneurs succeed, they make an irreplaceable contribution to Canada's economy. Supporting them is in our national interest.



Table of Contents

Management Discussion and Analysis.....	6
Context of the Quarterly Financial Report.....	6
Risk Management	6
Analysis of Financial Results	7
Consolidated Financial Statements.....	16

From time to time, we make written or oral forward-looking statements. We may make forward-looking statements in this quarterly financial report. These forward-looking statements include, but are not limited to, statements about objectives and strategies for achieving objectives, as well as statements about outlooks, plans, expectations, anticipations, estimates and intentions.

By their very nature, forward-looking statements involve numerous factors and assumptions, and they are subject to inherent risks and uncertainties, both general and specific. These uncertainties give rise to the possibility that predictions, forecasts, projections and other elements of forward-looking statements will not be achieved. A number of important factors could cause actual results to differ materially from the expectations expressed.



Management Discussion and Analysis

Context of the Quarterly Financial Report

The *Financial Administration Act* requires that all departments and parent Crown corporations prepare and make public a quarterly financial report. The Standard on Quarterly Financial Reports for Crown Corporations is issued by the Treasury Board of Canada Secretariat to provide parent Crown corporations with the form and content of the quarterly financial report under the authority of section 131.1 of the *Financial Administration Act*. There is no requirement for an audit or review of the financial statements included in the quarterly financial report. Therefore, the condensed quarterly Consolidated Financial Statements included in this report have not been audited or reviewed by an external auditor.

Risk Management

In order to fulfill its mandate while ensuring sustainability, BDC must take and manage risk. BDC's approach to risk management is based on establishing a risk governance structure, including organizational design, policies, processes and controls, to effectively manage risk in line with its risk appetite. This structure enables the establishment of a comprehensive risk management framework for risk identification, assessment and measurement, risk analytics, reporting, and monitoring. In addition, this framework is designed to ensure that risk is considered in all business activities and that risk management is an integral part of day-to-day decision-making, as well as the annual corporate planning process.

The primary means through which the risk management function reports risk is through its quarterly Integrated Risk Management (IRM) report to senior management and the Board of Directors. This report provides a comprehensive quantitative and qualitative assessment of performance against the risk appetite, profiles BDC's major risk categories, identifies significant existing and emerging risks, and provides in-depth portfolio monitoring.

No significant changes were made to BDC's IRM practices and no new risks were identified during the quarter ended June 30, 2018.



Analysis of Financial Results

Analysis of financial results is provided to enable a reader to assess BDC's results of operations and financial condition for the three-month period ended June 30, 2018, compared to the corresponding period of the prior fiscal year. This analysis also includes comments about significant variances from BDC's fiscal 2019–23 Corporate Plan, when applicable.

BDC currently reports on six business segments: Financing, Growth & Transition Capital, Venture Capital, Advisory Services, Cleantech Practice and Venture Capital Incentive Programs (VCIP). Starting in fiscal 2019, Venture Capital Action Plan (VCAP) and the new Venture Capital Catalyst Initiative (VCCI), two government-sponsored programs managed by BDC, are now presented as one business segment under the Venture Capital Incentive Programs (VCIP).

All amounts are in Canadian dollars, unless otherwise specified, and are based on unaudited condensed quarterly Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS).

This analysis should be read in conjunction with the unaudited condensed quarterly Consolidated Financial Statements included in this report.

Consolidated net income

(\$ in millions)	Three months ended June 30	
	F2019	F2018
Financing	163.8	129.7
Advisory Services	(11.7)	(12.7)
Growth & Transition Capital	13.2	12.3
Venture Capital	36.3	5.3
Venture Capital Incentive Programs	20.0	11.0
Cleantech Practice	(0.6)	-
Net income	221.0	145.6
Net income attributable to:		
BDC's shareholder	219.0	145.7
Non-controlling interests	2.0	(0.1)
Net income	221.0	145.6

Three months ended June 30

For the quarter ended June 30, 2018, BDC recorded strong consolidated net income of \$221.0 million, comprising \$219.0 million attributable to BDC's shareholder and net income of \$2.0 million attributable to non-controlling interests. This compared to \$145.7 million in consolidated net income for the same period last year, of which a net loss of \$0.1 million was attributable to non-controlling interests.

Compared to last year, the increase was mostly attributable to Financing portfolio growth, to strong Venture Capital results, and to a higher net change in unrealized fair value appreciation of VCIP investments.

As at June 30, 2018, BDC expects its consolidated net income for fiscal 2019 to meet its Corporate Plan annual net income target of \$560 million.



Consolidated comprehensive income

	Three months ended June 30	
(\$ in millions)	F2019	F2018
Net income	221.0	145.6
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net income		
Net change in unrealized gains (losses) on FVOCI assets	0.3	(1.2)
Net change in unrealized gains (losses) on cash flow hedges	2.2	(0.2)
Total items that may be reclassified subsequently to net income	2.5	(1.4)
Items that will not be reclassified to net income		
Remeasurements of net defined benefit asset or liability	64.8	(92.5)
Other comprehensive income (loss)	67.3	(93.9)
Total comprehensive income	288.3	51.7
Total comprehensive income attributable to:		
BDC's shareholder	286.3	51.8
Non-controlling interests	2.0	(0.1)
Total comprehensive income	288.3	51.7

Three months ended June 30

Consolidated total comprehensive income comprises net income and other comprehensive income. Other comprehensive income (OCI) is mostly affected by remeasurements of net defined benefit asset or liability, which are subject to strong volatility as a result of market fluctuations.

BDC recorded other comprehensive income of \$67.3 million for the first quarter ended June 30, 2018, mainly due to higher discount rates used to value net defined benefit liability and to higher returns on pension plan assets than forecasted.

Following the transition to IFRS 9, assets previously classified as available-for-sale are now presented under fair value through other comprehensive income (FVOCI). This change had no impact on the measurement of these financial assets.



Financing results

	Three months ended June 30	
(\$ in millions)	F2019	F2018
Net interest income	296.5	266.6
Fee and other income	5.4	4.7
Provision for credit losses	(36.7)	(43.9)
Net gains (losses) on investments	-	(0.2)
Net gains (losses) on other financial instruments	0.4	0.7
Net impact on foreign exchange fluctuations	(2.8)	(2.2)
Income before operating and administrative expenses	262.8	225.7
Operating and administrative expenses	99.0	96.0
Net income from Financing	163.8	129.7

	Three months ended June 30	
As % of average portfolio	F2019	F2018
Net interest income	4.7	4.5
Fee and other income	0.1	0.1
Provision for credit losses	(0.6)	(0.8)
Net gains (losses) on investments	-	-
Net gains (losses) on other financial instruments	-	-
Net impact on foreign exchange fluctuations	-	-
Income before operating and administrative expenses	4.2	3.8
Operating and administrative expenses	1.6	1.6
Net income from Financing	2.6	2.2

Three months ended June 30

Net income from financing was \$163.8 million for the first quarter of fiscal 2019, compared to \$129.7 million for the same period last year. The increase in profitability was mainly due to higher net interest and fee income, primarily as a result of strong portfolio growth and a lower provision for credit losses due to good performance by the portfolio. As a percentage of average portfolio, net interest and fee income amounted to 4.8% for the three months ended June 30, 2018, higher than the 4.6% recorded in the same period last year.

BDC adopted IFRS 9 in the first quarter of fiscal 2019. As a result of the new impairment model, BDC recorded a provision for credit losses on performing loans (disbursed and undisbursed loans) of \$9.9 million due primarily to portfolio growth.



Operating and administrative expenses for the quarter ended June 30, 2018, were \$99.0 million, higher than the \$96.0 million recorded last year. However, operating and administrative expenses as a percentage of average portfolio, remained unchanged compared to last year at 1.6%.

Advisory Services results

(\$ in millions)	Three months ended June 30	
	F2019	F2018
Revenue	6.3	4.5
Delivery expenses ⁽¹⁾	4.1	3.3
Gross operating margin	2.2	1.2
Operating and administrative expenses	13.9	13.9
Net loss from Advisory Services	(11.7)	(12.7)

⁽¹⁾ Delivery expenses are included in operating and administrative expenses in the Consolidated Statement of Income.

Three months ended June 30

The offering under Advisory Services is considered an investment in entrepreneurs. As such, a net loss of \$11.7 million was recorded for the first quarter of fiscal 2019, lower than the net loss of \$12.7 million recorded for the same quarter last year.

Advisory Services recorded solid revenue of \$6.3 million in the first quarter of fiscal 2019, \$1.8 million higher than that recorded in fiscal 2018. Gross operating margin, at \$2.2 million for the three months ended June 30, 2018, was higher than the \$1.2 million recorded for the same period last year, driven mainly by higher revenues from the Growth Driver Program.

Operating and administrative expenses of \$13.9 million remained steady at the same level as in fiscal 2018.



Growth & Transition Capital results

	Three months ended June 30	
(\$ in millions)	F2019	F2018
Net revenue on investments	33.4	25.6
Net change in unrealized appreciation (depreciation) of investments	(9.7)	(4.0)
Net foreign exchange gains (losses)	0.2	(0.1)
Income before operating and administrative expenses	23.9	21.5
Operating and administrative expenses	10.7	9.2
Net income from Growth & Transition Capital	13.2	12.3
Net income attributable to:		
BDC's shareholder	11.7	12.2
Non-controlling interests	1.5	0.1
Net income from Growth & Transition Capital	13.2	12.3

	Three months ended June 30	
As % of average portfolio	F2019	F2018
Net revenue on investments	12.7	11.4
Net change in unrealized appreciation (depreciation) of investments	(3.7)	(1.8)
Net foreign exchange gains (losses)	0.1	(0.1)
Income before operating and administrative expenses	9.1	9.5
Operating and administrative expenses	4.1	4.1
Net income from Growth & Transition Capital	5.0	5.4
Net income attributable to:		
BDC's shareholder	4.4	5.4
Non-controlling interests	0.6	-
Net income from Growth & Transition Capital	5.0	5.4

Three months ended June 30

Net income for the three-month period totalled \$13.2 million compared to \$12.3 million recorded for the same period of fiscal 2018. Results for the quarter were favourably affected by higher net revenue on investments, mainly driven by higher net realized gains on investments.



For the three-month period, Growth & Transition Capital recorded a net change in unrealized depreciation of \$9.7 million, higher than the \$4.0 million recorded last year. During the first quarter of fiscal 2019, the increase in fair value depreciation was mainly driven by a few large accounts and by the reversal of net fair value appreciation due to realized income.

	Three months ended June 30	
(\$ in millions)	F2019	F2018
Net fair value appreciation (depreciation)	(4.2)	(3.8)
Reversal of net fair value depreciation (appreciation) due to realized income and write-offs	(5.5)	(0.2)
Net change in unrealized appreciation (depreciation) of investments	(9.7)	(4.0)

Operating and administrative expenses amounted to \$10.7 million for the three-month period ended June 30, 2018, higher than the \$9.2 million recorded last year. The increase was mainly due to higher staff levels required to fully support growth. However, as a percentage of average portfolio, operating and administrative expenses remained at the same level as last year, as BDC continued to focus on efficiency.

Venture Capital results

	Three months ended June 30	
(\$ in millions)	F2019	F2018
Net revenue (loss) on investments	0.5	(16.4)
Net change in unrealized appreciation (depreciation) of investments	29.2	42.6
Net foreign exchange gains (losses)	12.6	(15.0)
Income before operating and administrative expenses	42.3	11.2
Operating and administrative expenses	6.0	5.9
Net income (loss) from Venture Capital	36.3	5.3
Net income attributable to:		
BDC's shareholder	35.8	5.5
Non-controlling interests	0.5	(0.2)
Net income (loss) from Venture Capital	36.3	5.3

Three months ended June 30

During the first quarter of fiscal 2019, Venture Capital recorded a solid net income of \$36.3 million, compared to net income of \$5.3 million for the same period last year.

For the three-month period ended June 30, 2018, Venture Capital recorded lower write-offs and higher net realized gains on investments, mainly driving the higher net revenue on investments of \$0.5 million compared to the net loss of \$16.4 million recorded last year.



Net change in unrealized appreciation of investments was \$25.0 million for the first quarter of fiscal 2019, comparable to the \$25.2 million recorded last year.

	Three months ended June 30	
(\$ in millions)	F2019	F2018
Net fair value appreciation (depreciation)	25.0	25.2
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	4.2	17.4
Net change in unrealized appreciation (depreciation) of investments	29.2	42.6

Net foreign exchange gains on investments of \$12.6 million in the first quarter of fiscal 2019 were due to foreign exchange fluctuations on the U.S. dollar and were higher than last year given the stronger U.S. dollar.

Operating and administrative expenses of \$6.0 million for the first quarter of fiscal 2019 were similar to those recorded for the same period of fiscal 2018.

Venture Capital Incentive Programs results

	Three months ended June 30	
(\$ in millions)	F2019	F2018
Net revenue (loss) on investments	0.1	0.1
Net change in unrealized appreciation (depreciation) of investments	20.2	11.3
Net foreign exchange gains (losses)	0.1	(0.2)
Income (loss) before operating and administrative expenses	20.4	11.2
Operating and administrative expenses	0.4	0.2
Net income (loss) from Venture Capital Incentive Programs	20.0	11.0

Three months ended June 30

During the first quarter of fiscal 2019, Venture Capital Incentive Programs recorded net income of \$20.0 million, compared to net income of \$11.0 million for the same period last year.

Strong fiscal 2019 results were driven by a net change in unrealized appreciation of Venture Capital Action Plan underlying funds.

Operating and administrative expenses of \$0.4 million for the three-month period ended June 30, 2018 were slightly higher than those recorded in the same period of fiscal 2018, mainly due to expenses related to the new Venture Capital Catalyst Initiative.



Cleantech Practice results

(\$ in millions)	Three months ended	
	F2019	F2018
Net interest and fee income	0.2	-
Operating and administrative expenses	0.8	-
Net loss from Cleantech Practice	(0.6)	-

Three months ended June 30

Net loss from Cleantech Practice was \$0.6 million for the first quarter of fiscal 2019, as BDC continued to scale up this new business line.

The Cleantech Practice portfolio as at June 30, 2018 stood at \$27.4 million, comprising \$17.4 million in subordinate financing investments and \$10.0 million in equity investments.

Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows

Effective the first quarter of 2019, BDC adopted IFRS 9, *Financial Instruments* and applied the exemption whereby comparative information has not been restated. The financial impact of applying the new impairment model resulted in a reversal of \$131.7 million of the allowance for credit losses and a corresponding increase in the opening retained earnings. Refer to Note 3 and Note 4 to the financial statements for more information on the transition to IFRS 9.

As at June 30, 2018, total BDC assets amounted to \$28.8 billion, an increase of \$1.0 billion from March 31, 2018, largely due to the \$0.7 billion increase in our loans portfolio and the \$131.7 million reversal of the allowance for credit losses following the adoption of IFRS 9.

At \$24.5 billion, the loans portfolio represented BDC's largest asset (\$25.1 billion in gross portfolio less a \$0.6 billion allowance for credit losses). The gross loans portfolio grew by 2.7% over the quarter ended June 30, 2018, reflecting a more normal level of activity compared to the strong level of activity experienced in fiscal 2018.

BDC's investment portfolios, which include the subordinate financing and venture capital portfolios, stood at \$2.8 billion, compared to \$2.7 billion as at March 31, 2018. The asset-backed securities portfolio stood at \$534.5 million, compared to \$472.7 million as at March 31, 2018.

Derivative assets of \$12.1 million and derivative liabilities of \$4.2 million reflected the fair value of derivative financial instruments as at June 30, 2018. Net derivative fair value decreased \$4.1 million since March 31, 2018, as a result of maturities and a decrease in fair value.

As at June 30, 2018, BDC recorded a net defined benefit asset of \$149.1 million related to the registered pension plan and a net defined benefit liability of \$245.4 million for the other plans, for a total net defined benefit liability of \$96.3 million. This represented a decrease of \$63.6 million, compared to the total net defined benefit liability as at March 31, 2018, primarily as a result of remeasurement gains recorded in the first quarter of fiscal 2019. Refer to page 8 of this report for further information on remeasurements of net defined benefit asset or liability.



BDC holds cash and cash equivalents in accordance with its Treasury Risk Policy. The Bank's liquidities, which ensure funds are available to meet BDC's cash outflows, totalled \$672.3 million as at June 30, 2018, compared to \$672.9 million as at March 31, 2018. For the three-month period ended June 30, 2018, operating activities used \$436.9 million, mainly to support the growth of the loans portfolio. Cash flows used by investing activities amounted to \$107.9 million, reflecting net disbursements of asset-backed securities, subordinate financing and venture capital investments. Financing activities provided \$544.2 million in cash flow, mainly as a result of the issuance of short-term and long-term notes.

As at June 30, 2018, BDC funded its portfolios and liquidities with borrowings of \$21.2 billion and total equity of \$7.1 billion. Borrowings comprised \$20.6 billion in short-term notes and \$0.6 billion in long-term notes.

Capital adequacy

BDC's capital management framework is based on its Internal Capital Adequacy Assessment Process (ICAAP). To assess its capital adequacy, BDC monitors its capital status regularly by comparing its available capital to its capital demand. A key measure for assessing the adequacy of BDC's capital status is BDC's internal capital ratio.

BDC's internal capital ratio stood at 136.4% as at June 30, 2018, exceeding its target capital ratio of 134%, compared to 134.7% as at March 31, 2018.



Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)

Management’s Responsibility for Financial Information	17
Consolidated Statement of Financial Position	18
Consolidated Statement of Income	19
Consolidated Statement of Comprehensive Income	20
Consolidated Statement of Changes in Equity	21
Consolidated Statement of Cash Flows.....	22
Notes to the Consolidated Financial Statements.....	23
<i>Note 1 BDC general description.....</i>	<i>23</i>
<i>Note 2 Basis of preparation.....</i>	<i>23</i>
<i>Note 3 Significant accounting policies</i>	<i>24</i>
<i>Note 4 Adoption of IFRS 9</i>	<i>29</i>
<i>Note 5 Significant accounting judgements, estimates and assumptions.....</i>	<i>30</i>
<i>Note 6 Fair value of financial instruments.....</i>	<i>31</i>
<i>Note 7 Asset-backed securities.....</i>	<i>34</i>
<i>Note 8 Loans.....</i>	<i>34</i>
<i>Note 9 Subordinate financing investments</i>	<i>37</i>
<i>Note 10 Venture capital investments</i>	<i>38</i>
<i>Note 11 Share capital.....</i>	<i>39</i>
<i>Note 12 Segmented information</i>	<i>40</i>
<i>Note 13 Guarantees.....</i>	<i>43</i>
<i>Note 14 Related party transactions.....</i>	<i>43</i>



Management's Responsibility for Financial Information

Management is responsible for the preparation and fair presentation of these condensed quarterly Consolidated 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 are necessary to enable the preparation of condensed quarterly Consolidated 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 quarterly Consolidated Financial Statements.

Based on our knowledge, these unaudited condensed quarterly Consolidated Financial Statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the condensed quarterly Consolidated Financial Statements.

Michael Denham
President and Chief Executive Officer

Stefano Lucarelli, CPA, CA
Executive Vice President and Chief Financial Officer

Montreal, Canada
July 24, 2018



Consolidated Statement of Financial Position

(unaudited)

(in thousands of Canadian dollars)	Notes	June 30, 2018	March 31, 2018
ASSETS			
Cash and cash equivalents		672,266	672,870
Asset-backed securities, at FVOCI	7	525,920	465,216
Loans			
Loans, at amortized cost	8	25,093,498	24,432,831
Less: allowance for credit losses	8	(593,921)	(704,640)
Loans at amortized cost, net		24,499,577	23,728,191
Financial assets at fair value through profit or loss			
Derivative assets		12,067	15,357
Asset-backed securities	7	8,613	7,479
Subordinate financing investments	9	1,058,042	1,052,352
Venture capital investments	10	1,758,437	1,663,627
Total financial assets at fair value through profit or loss		2,837,159	2,738,815
Property and equipment		52,334	51,297
Intangible assets		38,797	38,206
Net defined benefit asset		149,149	95,303
Other assets		25,823	19,268
Total assets		28,801,025	27,809,166
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities		136,223	127,453
Short-term notes		20,605,437	20,481,148
Long-term notes		496,510	-
Total financial liabilities at amortized cost		21,238,170	20,608,601
Financial liabilities at fair value through profit or loss			
Derivative liabilities		4,184	3,387
Long-term notes		138,027	137,684
Total financial liabilities at fair value through profit or loss		142,211	141,071
Net defined benefit liability		245,437	255,225
Other liabilities		71,764	45,066
Total liabilities		21,697,582	21,049,963
Equity			
Share capital	11	2,477,900	2,477,900
Contributed surplus		27,778	27,778
Retained earnings		4,557,651	4,211,785
Accumulated other comprehensive income		1,467	(991)
Equity attributable to BDC's shareholder		7,064,796	6,716,472
Non-controlling interests		38,647	42,731
Total equity		7,103,443	6,759,203
Total liabilities and equity		28,801,025	27,809,166

Guarantees (Note 13)

Commitments (Notes 7, 8, 9 and 10)

The Consolidated Financial Statements for the quarter ended June 30, 2018 were prepared in compliance with IFRS 9 and comparative amounts for the year ended March 31, 2018 were not restated. For additional information, refer to Note 4—Adoption of IFRS 9.

The accompanying notes are an integral part of these Consolidated Financial Statements.



Consolidated Statement of Income

(unaudited)

(in thousands of Canadian dollars)	Three months ended June 30	
	2018	2017
Interest income	373,247	306,440
Interest expense	56,457	20,806
Net interest income	316,790	285,634
Net realized gains (losses) on investments	6,720	(15,214)
Revenue from Advisory Services	6,276	4,478
Fee and other income	12,517	10,408
Net revenue	342,303	285,306
Provision for credit losses	(36,709)	(43,915)
Net change in unrealized appreciation (depreciation) of investments	39,792	49,636
Net foreign exchange gains (losses)	10,035	(17,533)
Net unrealized gains (losses) on other financial instruments	456	660
Income before operating and administrative expenses	355,877	274,154
Salaries and benefits	98,761	91,825
Premises and equipment	10,864	10,175
Other expenses	25,242	26,520
Operating and administrative expenses	134,867	128,520
Net income	221,010	145,634
Net income attributable to:		
BDC's shareholder	218,978	145,640
Non-controlling interests	2,032	(6)
Net income	221,010	145,634

The Consolidated Financial Statements for the quarter ended June 30, 2018 were prepared in compliance with IFRS 9 and comparative amounts for the year ended March 31, 2018 were not restated. For additional information, refer to Note 4—Adoption of IFRS 9.

The accompanying notes are an integral part of these Consolidated Financial Statements, and Note 12 provides additional information on segmented net income.



Consolidated Statement of Comprehensive Income

(unaudited)

(in thousands of Canadian dollars)	Three months ended June 30	
	2018	2017
Net income	221,010	145,634
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net income		
Net change in unrealized gains (losses) on FVOCI assets	263	(1,190)
Net unrealized gains (losses) on cash flow hedges	2,473	-
Reclassification to net income of losses (gains) on cash flow hedges	(278)	(249)
Net change in unrealized gains (losses) on cash flow hedges	2,195	(249)
Total items that may be reclassified subsequently to net income	2,458	(1,439)
Items that will not be reclassified to net income		
Remeasurements of net defined benefit asset or liability	64,838	(92,531)
Other comprehensive income (loss)	67,296	(93,970)
Total comprehensive income	288,306	51,664
Total comprehensive income attributable to:		
BDC's shareholder	286,274	51,670
Non-controlling interests	2,032	(6)
Total comprehensive income	288,306	51,664

The Consolidated Financial Statements for the quarter ended June 30, 2018 were prepared in compliance with IFRS 9 and comparative amounts for the year ended March 31, 2018 were not restated. For additional information, refer to Note 4—Adoption of IFRS 9.

The accompanying notes are an integral part of these Consolidated Financial Statements.



Consolidated Statement of Changes in Equity

For the three months ended June 30
(unaudited)

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)			Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
				FVOCI assets	Cash flow hedges	Total			
Balance as at March 31, 2018	2,477,900	27,778	4,211,785	(4,276)	3,285	(991)	6,716,472	42,731	6,759,203
Impact of adopting IFRS 9 on April 1, 2018⁽¹⁾			131,750				131,750		131,750
Opening balance as at April 1, 2018	2,477,900	27,778	4,343,535	(4,276)	3,285	(991)	6,848,222	42,731	6,890,953
Total comprehensive income									
Net income			218,978				218,978	2,032	221,010
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on FVOCI assets				263		263	263		263
Net change in unrealized gains (losses) on cash flow hedges					2,195	2,195	2,195		2,195
Remeasurements of net defined benefit asset or liability			64,838				64,838		64,838
Other comprehensive income (loss)	-	-	64,838	263	2,195	2,458	67,296	-	67,296
Total comprehensive income	-	-	283,816	263	2,195	2,458	286,274	2,032	288,306
Dividends on common shares			(69,700)				(69,700)		(69,700)
Distributions to non-controlling interests								(6,116)	(6,116)
Transactions with owner, recorded directly in equity	-	-	(69,700)	-	-	-	(69,700)	(6,116)	(75,816)
Balance as at June 30, 2018	2,477,900	27,778	4,557,651	(4,013)	5,480	1,467	7,064,796	38,647	7,103,443

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)			Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
				FVOCI assets	Cash flow hedges	Total			
Balance as at March 31, 2017	2,413,400	27,778	3,473,612	(711)	3,421	2,710	5,917,500	21,795	5,939,295
Total comprehensive income									
Net income			145,640				145,640	(6)	145,634
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on FVOCI assets				(1,190)		(1,190)	(1,190)		(1,190)
Net change in unrealized gains (losses) on cash flow hedges					(249)	(249)	(249)		(249)
Remeasurements of net defined benefit asset or liability			(92,531)				(92,531)		(92,531)
Other comprehensive income (loss)	-	-	(92,531)	(1,190)	(249)	(1,439)	(93,970)	-	(93,970)
Total comprehensive income	-	-	53,109	(1,190)	(249)	(1,439)	51,670	(6)	51,664
Dividends on common shares			-				-		-
Distributions to non-controlling interests								(2,752)	(2,752)
Transactions with owner, recorded directly in equity	-	-	-	-	-	-	-	(2,752)	(2,752)
Balance as at June 30, 2017	2,413,400	27,778	3,526,721	(1,901)	3,172	1,271	5,969,170	19,037	5,988,207



Consolidated Statement of Cash Flows

(unaudited)

(in thousands of Canadian dollars)	Three months ended	
	2018	2017
	June 30	
Operating activities		
Net income	221,010	145,634
Adjustments to determine net cash flows		
Interest income	(373,247)	(306,440)
Interest expense	56,457	20,806
Net realized losses (gains) on investments	(6,720)	15,214
Provision for credit losses	36,709	43,915
Net change in unrealized depreciation (appreciation) on investments	(39,792)	(49,636)
Net unrealized foreign exchange losses (gains)	(16,845)	18,056
Net unrealized losses (gains) on other financial instruments	797	(410)
Defined benefits funding below (in excess of) amounts expensed	1,204	(1,549)
Depreciation of property and equipment, and amortization of intangible assets	4,756	3,898
Other	(10,687)	(8,056)
Interest expense paid	(54,252)	(18,905)
Interest income received	365,390	299,291
Changes in operating assets and liabilities		
Net change in loans	(628,937)	(614,064)
Net change in accounts payable and accrued liabilities	8,770	7,969
Net change in other assets and other liabilities	(1,544)	(5,116)
Net cash flows provided (used) by operating activities	(436,931)	(449,393)
Investing activities		
Disbursements for asset-backed securities	(116,171)	(41,068)
Repayments and proceeds on sale of asset-backed securities	54,828	52,034
Disbursements for subordinate financing investments	(73,154)	(106,064)
Repayments of subordinate financing investments	65,101	51,531
Disbursements for venture capital investments	(76,303)	(100,161)
Proceeds on sale of venture capital investments	44,197	17,955
Acquisition of property and equipment	(3,259)	(2,376)
Acquisition of intangible assets	(3,125)	(3,535)
Net cash flows provided (used) by investing activities	(107,886)	(131,684)
Financing activities		
Net change in short-term notes	125,029	610,014
Issue of long-term notes	495,000	-
Distributions to non-controlling interests	(6,116)	(2,752)
Dividends paid on common shares	(69,700)	-
Net cash flows provided (used) by financing activities	544,213	607,262
Net increase (decrease) in cash and cash equivalents	(604)	26,185
Cash and cash equivalents at beginning of period	672,870	649,168
Cash and cash equivalents at end of period	672,266	675,353

The Consolidated Financial Statements for the quarter ended June 30, 2018 were prepared in compliance with IFRS 9 and comparative amounts for the year ended March 31, 2018 were not restated. For additional information, refer to Note 4—Adoption of IFRS 9.

The accompanying notes are an integral part of these Consolidated Financial Statements.



Notes to the Consolidated Financial Statements

(unaudited in thousands of Canadian dollars)

1.

BDC general description

The Business Development Bank of Canada is a Crown corporation that was established by an Act of Parliament on December 20, 1974, as the Federal Business Development Bank and continued under its current name by an Act of Parliament that was enacted on July 13, 1995. The Business Development Bank of Canada is incorporated in Canada and wholly owned by the Government of Canada.

The objectives of the Business Development Bank of Canada and its subsidiaries (together, BDC) are to promote and assist in the establishment and development of business enterprises in Canada, with a focus on small and medium-sized enterprises, by providing a range of complementary lending, investment and consulting services. BDC offers Canadian companies services tailored to meet their current needs while earning an appropriate return on equity, which is used to further BDC's activities. BDC does not receive appropriations from the Government of Canada.

2.

Basis of preparation

BDC's condensed quarterly Consolidated Financial Statements are in compliance with the Standard on Quarterly Financial Reports for Crown Corporations, as required by the *Financial Administration Act* and issued by the Treasury Board of Canada Secretariat.

BDC's condensed quarterly Consolidated Financial Statements follow the same basis of preparation as our audited Consolidated Financial Statements for the year ended March 31, 2018, except for changes resulting from the adoption of *IFRS 9, Financial Instruments*, on April 1, 2018. Comparative information for the year ended March 31, 2018 has not been restated. For complete information on the basis of preparation and for significant accounting policies, judgements, estimates and assumptions related to the previous standard IAS 39, *Financial Instruments Recognition and Measurement*, refer to page 55 to 68 of our 2018 Annual Report.

These condensed quarterly Consolidated Financial Statements have been prepared using International Financial Reporting Standards (IFRS).

The condensed quarterly Consolidated Financial Statements have also been prepared in accordance with the accounting policies BDC expects to use in its annual Consolidated Financial Statements for the year ending March 31, 2019. If BDC changes the application of these policies, it may result in a restatement of these condensed quarterly Consolidated Financial Statements.

The condensed quarterly Consolidated Financial Statements were approved for issue by the Board of Directors on July 24, 2018.



3.

Significant accounting policies

BDC's condensed quarterly Consolidated Financial Statements follow the same accounting policies as our audited Consolidated Financial Statements for the year ended March 31, 2018, except for changes resulting from the adoption of *IFRS 9, Financial Instruments*, on April 1, 2018, as set out below. These policies have been consistently applied to all periods presented in these condensed quarterly Consolidated Financial Statements and have been applied consistently by all entities consolidated by BDC.

These condensed quarterly Consolidated Financial Statements must be read in conjunction with BDC's 2018 Annual Report and the accompanying notes, as set out on pages 54 to 114 of our 2018 Annual Report.

Financial instruments

Recognition, derecognition and measurement of financial instruments

Financial assets and financial liabilities are recognized when BDC becomes party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when the related contractual obligation is extinguished, discharged or cancelled, or when it expires.

Financial instruments are recognized and derecognized using settlement date accounting.

On initial recognition, financial instruments are measured at fair value. Fair value on initial recognition includes transaction costs directly attributable to the acquisition or issue of financial instruments, except for financial instruments carried at fair value through profit or loss, for which transaction costs are recognized in net income in the period when they are incurred.

Classification of financial instruments - Policy applicable upon transition to IFRS 9 (April 1, 2018)

Financial assets

On initial recognition, a financial asset is classified and subsequently measured at:

- amortized cost
- fair value through profit or loss (FVTPL) or
- fair value through other comprehensive income (FVOCI)

Business model assessment

The classification depends on BDC's business model for managing these financial assets and the contractual terms of the financial asset's cash flows. The business models objectives are broken down into three categories:

- Financial assets held solely to collect contractual cash flows
- Financial assets held both to collect contractual cash flows and selling the assets
- Financial assets that are managed on a fair value basis

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

All other financial assets are classified as measured at FVTPL.

On initial recognition, BDC may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI, to be measured as at FVTPL.

BDC makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the investment strategy for holding or selling the assets in the portfolio and the risks that affect the performance of the business model
- the reports provided to BDC's management and key indicators used to assess the performance of the portfolio
- the portfolios' managers compensation (i.e., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected)
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and the expectations about future sales activity.

Assessment whether contractual cash flows are solely payments of principal and interest

In assessing whether the contractual cash flows are solely payments of principal and interest, BDC considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, BDC considers characteristics such as:

- contingent events that change the amount and timing of cash flows
- leveraged features
- prepayment and extension terms
- terms that limit BDC's claim to cash flows from specified assets
- features that modify consideration of the time value of money.

Financial liabilities

BDC classifies its financial liabilities at amortized cost unless it has designated liabilities at FVTPL or is required to measure liabilities at FVTPL. BDC designates a financial liability as measured at FVTPL on initial recognition when it eliminates an accounting mismatch that would otherwise arise from measuring assets or liabilities on a different basis.

A description of the basis for each designation is set out in the major types of financial instruments section of this note.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Subsequent measurement of financial instruments - Policy applicable upon transition to IFRS 9 (April 1, 2018)

Financial instruments are measured in subsequent periods either at fair value or at amortized cost depending on the financial instrument classification.

Financial instruments classified as at amortized cost

Subsequent to initial recognition, financial assets and liabilities classified in this category are recognized at amortized cost using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to its carrying amount. When calculating the effective interest rate, BDC estimates future cash flows, considering all contractual terms of the financial instrument. Interest income, interest expense and the amortization of loans fees are presented in Net interest income in the Consolidated Statement of Income.

Financial instruments classified as at fair value through profit or loss

Subsequent to initial recognition, financial instruments classified as at fair value through profit or loss are measured at fair value with the changes in unrealized gains or losses being recognized in the Consolidated Statement of Income as:

- net change in unrealized appreciation or depreciation of investments, or net foreign exchange gains or losses, when related to asset-backed securities, subordinate financing and venture capital investments; or
- net gains or losses on other financial instruments when related to derivatives.

Gains and losses upon the sale, disposal or write-off of these financial instruments are included directly in the Consolidated Statement of Income and are reported as:

- net realized gains or losses on investments when related to asset-backed securities, subordinate financing and venture capital investments; or
- net gains or losses on other financial instruments when related to derivatives.

Financial instruments classified as at fair value through other comprehensive income

Subsequent to initial recognition, financial instruments measured as at fair value through other comprehensive income are measured at fair value, with unrealized gains and losses recorded in other comprehensive income (OCI) until the asset is derecognized, with the exception of impairment losses, which are recorded in the Consolidated Statement of Income during the period in which the asset is determined to have become impaired.

Financial liabilities designated at fair value through profit or loss

Subsequent measurement of financial liabilities designated as at fair value through profit or loss is similar to financial instruments classified at fair value through profit or loss.

Impairment - Policy applicable upon transition to IFRS 9 (April 1, 2018)

An allowance for expected credit losses (“ECL”) is calculated for the following financial assets that are not measured at FVTPL:

- Cash and cash equivalents
- Accounts receivable
- Investment-grade asset-backed securities
- Loans
- Loans and ABS commitments

The allowance for ECL is maintained at a level considered adequate to absorb the credit losses expected in the portfolio at the financial reporting date based on a forward-looking model and is established at the individual level.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



As required by IFRS 9, the allowance for expected credit losses is measured using a three-stage impairment model:

- i. Stage 1 – 12-month ECL: The loss allowance is measured at an amount equal to 12-month expected credit losses if there is no significant increase in credit-risk since initial recognition
- ii. Stage 2 – lifetime ECL: The loss allowance is measured at an amount equal to the lifetime expected credit losses if there is a significant increase in credit risk since initial recognition and the loan is not considered credit-impaired
- iii. Stage 3 – lifetime ECL: The loss allowance is measured at an amount equal to the lifetime expected credit losses if the loan is considered credit-impaired

The ECL model calculates a probability-weighted estimate, which incorporates forward-looking information representing three macro-economic scenarios. The assessment of a significant increase in credit risk is based on changes in the forward-looking lifetime probability of default since initial recognition.

Upon transition to IFRS 9, the allowance for ECL is calculated on the disbursed and undisbursed amounts of authorized loans and investment-grade asset-backed securities. The allowance on disbursed amounts is recorded against the assets whereas the allowance on the undisbursed amounts is recorded in other liabilities in the Consolidated Statement of Financial Position.

Definition of default

Per BDC's credit risk management policy, a financial asset is considered impaired and moves to Stage 3 when it is in default of payments for three consecutive months, or when adverse events have occurred that are judged to be severe and likely unresolvable which indicate that BDC can no longer expect to collect the expected future cash flows in full.

Write-off policy

Financial assets are written-off after BDC has exhausted all possible avenues of recovery from the borrower and guarantors and no value can be expected from the realization of security.

Major types of financial instruments

Cash equivalents

Cash equivalents include short-term bank notes that, at the original acquisition date, have maturities of less than three months and are used to manage liquidity risk.

Cash equivalents are classified at amortized cost.

Cash equivalents are monitored daily to determine the counterparty credit risk using external credit rating agencies. As at June 30, 2018, cash equivalents are considered to have a low credit risk based on the counterparties' external credit ratings of A to AA. The low credit risk simplification is used and impairment on cash equivalents is calculated based on 12-month expected credit losses.

Asset-backed securities

The asset-backed securities (ABS) portfolio consists of investment-grade senior and subordinated notes issued by way of private placement.

Investment-grade senior ABS are classified as fair value through other comprehensive income, and subordinated ABS notes are classified as at fair value through profit or loss on the basis that they are reported to and evaluated by senior management on a fair value basis. ABS presented on the Consolidated Statement of Financial Position include accrued interest receivable.

The fair value of ABS is calculated using forecasted cash flows and an estimated yield curve that is derived from the Canadian government yield curve and ABS spread for comparable transactions. The result is adjusted to reflect the risk of the underlying assets and deal structure.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



As required by IFRS 9, expected credit losses are calculated on the disbursed and undisbursed portfolio of investment-grade senior notes since they are classified at FVOCI. No impairment is calculated on the subordinated notes since they are classified at FVTPL. Upon transition to IFRS 9, all of the investment-grade senior notes are considered low credit risk, and therefore the low credit risk simplification is used and impairment is calculated based on 12-month expected credit losses. ABS notes' credit risk is monitored quarterly using internal credit risk rating methodology.

Loans

Loans are classified and measured at amortized cost using the effective interest method. Loans presented in the Consolidated Statement of Financial Position include accrued interest receivable.

BDC reviews its loan portfolio on an individual asset basis to assess credit risk using the three-stage impairment model and determines whether there is any objective evidence of impairment for which a loss should be recognized in the Consolidated Statement of Income. For BDC, there is objective evidence of impairment when the interest or principal of the loan is in arrears for three consecutive months or more or if there is reason to believe that a portion of the principal or interest cannot be collected.

When a loan is deemed impaired, the carrying amount of the loan is reduced to the present value of its estimated future cash flows discounted using (i) the initial effective interest rate of the loan for fixed rate loans or (ii) the rate at time of impairment for floating rate loans. If cash flows cannot be reasonably determined, the estimated fair value of any underlying collateral is used, whether or not foreclosure is probable.

The carrying amounts of impaired loans are first reduced through the use of the ECL allowance account, and then written off when all collection efforts have been exhausted and no further prospect of recovery is likely. The amounts of the initial impairment losses, as well as any subsequent increases or reversals of these impairment losses, are recognized in the provision for expected credit losses in the Consolidated Statement of Income.

Refer to Note 5—*Significant accounting judgements, estimates and assumptions* for more information regarding the criteria used to determine the amount of the allowance.

Subordinate financing and venture capital investments

Upon initial recognition, subordinate financing and venture capital investments are classified as at fair value through profit or loss on the basis that they are part of a portfolio that is reported to and evaluated by senior management on a fair value basis, in accordance with a documented investment and risk management strategy. Upon transition to IFRS 9, undisbursed amounts of subordinate financing investments are designated as measured at fair value through profit or loss to avoid an accounting mismatch between the undisbursed and outstanding investments measured at FVTPL.

BDC's valuation process for fair value measurement of subordinate financing and venture capital investments has been derived from the International Private Equity and Venture Capital Valuation Guidelines. Based on the type of investments being valued, BDC uses (i) market-based methodologies, such as the quoted share price or the price of recent similar investments; (ii) discounted earnings or cash flow approaches; or (iii) liquidation or asset-based methods. These fair values are updated at least twice a year by internal valuers and are then reviewed by a valuation committee, which includes an external member who is a chartered business valuator. Venture Capital Action Plan (VCAP) includes fund-of-fund transactions that provide for certain other limited partners to receive a preferred return on the initial cost of their investment, later timing of cash calls and preference in the distributions. The impact of these terms and conditions is taken into account in the fair value calculation by applying an adjustment to the attributed net asset value of each fund.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



4.

Adoption of IFRS 9

The following table summarizes the impact on classification and measurement to BDC's financial assets and liabilities upon transition to IFRS 9 on April 1, 2018.

	Classification and Measurement Category		Reconciliation of Carrying Amount		
	Original (IAS 39)	New (IFRS 9)	As of March 31, 2018 (IAS 39)	Remeasurement	As of April 1, 2018 (IFRS 9)
ASSETS					
Cash and cash equivalents	Loans and receivables	Amortized cost	672,870	-	672,870
Asset-backed securities, at FVOCI	Available for sale	FVOCI	465,216	-	465,216
Loans	Loans and receivables	Amortized cost			
Loans, at amortized cost			24,432,831	21,244	24,454,075
Less: allowance for credit losses			(704,640)	132,193	(572,447)
Loans at amortized cost, net			23,728,191	153,437	23,881,628
Financial assets at fair value through profit or loss					
Derivative assets	Held-for-trading	FVTPL	15,357	-	15,357
Asset-backed securities	FVTPL (Designated) ⁽¹⁾	FVTPL	7,479	-	7,479
Subordinate financing investments	FVTPL (Designated) ⁽¹⁾	FVTPL	1,052,352	-	1,052,352
Venture capital investments	FVTPL (Designated) ⁽¹⁾	FVTPL	1,663,627	-	1,663,627
Total financial assets at fair value through profit or loss			2,738,815	-	2,738,815
Other assets	Loans and receivables	Amortized cost	204,074	-	204,074
Total assets			27,809,166	153,437	27,962,603
LIABILITIES AND EQUITY					
Liabilities					
Accounts payable and accrued liabilities	Financial liabilities	Amortized cost	127,453	-	127,453
Short-term notes	Financial liabilities	Amortized cost	20,481,148	-	20,481,148
Long-term notes	Financial liabilities	Amortized cost	-	-	-
Total financial liabilities at amortized cost			20,608,601	-	20,608,601
Financial liabilities at fair value through profit or loss					
Derivative liabilities	Held-for-trading	FVTPL	3,387	-	3,387
Long-term notes	FVTPL (Designated)	FVTPL (Designated)	137,684	-	137,684
Total financial liabilities at fair value through profit or loss			141,071	-	141,071
Other liabilities	Financial liabilities	Amortized cost	300,291	21,687	321,978
Total liabilities			21,049,963	21,687	21,071,650
Equity					
Share capital			2,477,900	-	2,477,900
Contributed surplus			27,778	-	27,778
Retained earnings			4,211,785	131,750	4,343,535
Accumulated other comprehensive income			(991)	-	(991)
Equity attributable to BDC's shareholder			6,716,472	131,750	6,848,222
Non-controlling interests			42,731	-	42,731
Total equity			6,759,203	131,750	6,890,953
Total liabilities and equity			27,809,166	153,437	27,962,603

⁽¹⁾ Investments other than loans held by BDC meet the criteria for mandatory measurement at FVTPL because the contractual cash flows of these investments are not solely payments of principal and interest on the principal outstanding. Before the adoption of IFRS 9, these investments were designated as at FVTPL because BDC manages them on a fair value basis in accordance with a documented investment strategy. There was no impact on retained earnings upon transition to IFRS 9 on April 1, 2018.

The following table is a reconciliation of the closing allowance for credit losses in accordance with IAS 39 as at March 31, 2018 to the opening allowance for credit losses determined in accordance with IFRS 9 as at April 1, 2018.

	Allowance for credit losses as of March 31, 2018 (IAS 39)	Remeasurement	Allowance for credit losses as of April 1, 2018 (IFRS 9)
Loans	704,640	(132,193)	572,447
Other liabilities	-	21,687	21,687
Total	704,640	(110,506)	594,134



5.

Significant accounting judgements, estimates and assumptions

Preparation of the Consolidated Financial Statements as per IFRS requires management to make judgements and use estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Significant changes in the underlying assumptions could result in significant changes to these estimates. Consequently, management reviews these assumptions regularly. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected.

Information about the significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the Consolidated Financial Statements are summarized in this note. For complete information about significant accounting judgements, estimates and assumptions, refer to page 66 of our 2018 Annual Report.

Estimates and Assumptions

Allowance for expected credit losses - Estimates and assumptions applicable upon transition to IFRS 9 (April 1, 2018)

The allowance for credit losses under IFRS 9 represents management's estimate of the losses expected in the loan portfolio at the reporting date, which is established at the individual asset level, incorporates forward-looking information and is based on a probability-weighted outcome of multiple economic scenarios.

BDC reviews its loans individually to assess whether an impairment loss should be recorded. The process requires BDC to make assumptions and judgements by carrying out certain activities, including assessing the impaired status and risk of a loan, and estimating future cash flows and collateral values.

Upon adoption of IFRS 9, impaired loans are considered in Stage 3. All other loans are either considered in Stage 1 or in Stage 2 if a significant increase in credit risk has occurred. If the increase in credit risk is no longer considered significant, loans will move back to Stage 1 and if the loans are no longer considered impaired, they will move back to Stage 1 or 2. Assumptions used to determine whether there is a significant increase in credit risk include a significant increase in the expected lifetime probability of default since origination, loans that are 30 days past due or on the watchlist. Qualitative management overlays may also be applied, as required, to account for loans that have experienced a significant increase in risk. The ECL is calculated for each exposure, taking into account the financial instrument's forward-looking probability of default, loss given default, and exposure at default. IFRS 9 requires that current and expected economic conditions for multiple scenarios are taken into account in determining whether there has been a significant increase in credit risk and in calculating the amount of expected losses. BDC considers three forward-looking scenarios which are probability weighted. The "base case" represents the most likely scenario under current and forward-looking economic conditions, whereas the "upside" and "downside" differ relative to the base case based on plausible economic conditions. Management judgement is required in the application of forward-looking information.

Changes in these assumptions, or the use of other reasonable judgements, can materially affect the allowance level. Refer to Note 8—*Loans* for more information on the allowance for credit losses.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the Consolidated Statement of Financial Position cannot be derived from active markets (i.e., from quoted market prices or dealer price quotations), it is determined using valuation techniques, including discounted cash flow models.

The inputs to these models, such as interest rate yield curves, equity prices and currency prices and yields, volatilities of underlying assumptions, and correlations between inputs, are taken from observable markets, where possible. Where this is not feasible, a degree of judgement is required in establishing fair values.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



These judgements include considerations of inputs, such as the discount rate, expected rate of return by level of risk and weighted forecast of cash flows. Changes to these inputs could affect the reported fair value of financial instruments. Refer to Note 3—*Significant accounting policies* for more information about the valuation techniques used for each type of financial instrument and to Note 6—*Fair value of financial instruments* for additional information on fair value hierarchy levels.

Qualifying hedge relationships

BDC ceased hedge accounting on March 31, 2018. Prior to that date, in designating financial instruments in qualifying hedge relationships, BDC had determined that it expects the hedges to be highly effective over the period of the hedging relationship. In accounting for derivatives as cash flow hedges, BDC had determined that the hedged cash flow exposure relates to highly probable future cash flows.

6.

Fair value of financial instruments

All financial instruments measured at fair value must be categorized into one of three hierarchy levels for disclosure purposes. Each level is based on the observability of the inputs used to measure the fair value of assets and liabilities, and is defined below:

- level 1—fair values based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities
- level 2—fair values based on inputs other than quoted prices in active markets that are either directly or indirectly observable
- level 3—fair values based on valuation techniques with one or more significant unobservable market inputs

There have been no transfers between levels 1 and 2 or between levels 2 and 3 in the reporting periods. BDC's policy is to recognize transfers between levels 1 and 3 when private investments become publicly traded or public investments become private investments during the reporting periods.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



The following tables present financial instruments carried at fair value categorized by hierarchy levels.

	Fair value measurements using			June 30, 2018
	Level 1	Level 2	Level 3	Total fair value
Assets				
Derivative assets		12,067		12,067
Asset-backed securities, as at FVOCI		525,920		525,920
Asset-backed securities, as at FVTPL		8,613		8,613
Subordinate financing investments	2,364		1,055,678	1,058,042
Venture capital investments	145,358		1,613,079	1,758,437
	147,722	546,600	2,668,757	3,363,079
Liabilities				
Derivative liabilities		4,184		4,184
Long-term notes designated as at FVTPL		138,027		138,027
	-	142,211	-	142,211

	Fair value measurements using			March 31, 2018
	Level 1	Level 2	Level 3	Total fair value
Assets				
Derivative assets		15,357		15,357
Asset-backed securities, as at FVOCI		465,216		465,216
Asset-backed securities, as at FVTPL		7,479		7,479
Subordinate financing investments	1,900		1,050,452	1,052,352
Venture capital investments	149,850		1,513,777	1,663,627
	151,750	488,052	2,564,229	3,204,031
Liabilities				
Derivative liabilities		3,387		3,387
Long-term notes designated as at FVTPL		137,684		137,684
	-	141,071	-	141,071

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



The following tables present the changes in fair value measurement for financial instruments included in level 3 of the fair value hierarchy.

	June 30, 2018		
	Subordinate financing investments	Venture capital investments	Total
Fair value as at April 1, 2018	1,050,452	1,513,777	2,564,229
Net realized gains (losses) on investments	6,965	(245)	6,720
Net change in unrealized appreciation (depreciation) of investments	(10,146)	56,943	46,797
Net unrealized foreign exchange gains (losses) on investments	-	9,643	9,643
Disbursements for investments	73,154	76,303	149,457
Repayments of investments and other	(64,747)	(43,342)	(108,089)
Transfers from level 3 to level 1	-	-	-
Fair value as at June 30, 2018	1,055,678	1,613,079	2,668,757

	March 31, 2018		
	Subordinate financing investments	Venture capital investments	Total
Fair value as at April 1, 2017	859,043	1,303,779	2,162,822
Net realized gains (losses) on investments	3,472	(23,909)	(20,437)
Net change in unrealized appreciation (depreciation) of investments	1,409	225,894	227,303
Net unrealized foreign exchange gains (losses) on investments	-	(17,094)	(17,094)
Disbursements for investments	401,332	246,072	647,404
Repayments of investments and other	(211,582)	(124,262)	(335,844)
Transfers from level 3 to level 1	(3,222)	(96,703)	(99,925)
Fair value as at March 31, 2018	1,050,452	1,513,777	2,564,229

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



7.

Asset-backed securities

	June 30, 2018	March 31, 2018
Fair value through other comprehensive income		
Principal amount	529,933	469,492
Cumulative fair value appreciation (depreciation)	(4,013)	(4,276)
Carrying value	525,920	465,216
Yield	2.34%	2.19%
Fair value through profit or loss		
Principal amount	8,653	7,543
Cumulative fair value appreciation (depreciation)	(40)	(64)
Carrying value	8,613	7,479
Yield	7.81%	7.79%
Asset-backed securities	534,533	472,695

No asset-backed securities were impaired as at June 30, 2018 or March 31, 2018. No allowance for credit losses was recorded as at June 30, 2018.

Undisbursed amounts of authorized asset-backed securities were \$367,000 as at June 30, 2018 (\$403,000 as at March 31, 2018).

8.

Loans

The following tables summarize loans outstanding by contractual maturity date.

	Within 1 year	1 to 5 years	Over 5 years	Total gross carrying amount	Allowance for credit losses	Total net carrying amount
Performing	342,986	2,878,142	21,050,397	24,271,525	(268,399)	24,003,126
Impaired	18,125	132,278	671,570	821,973	(325,522)	496,451
Loans as at June 30, 2018	361,111	3,010,420	21,721,967	25,093,498	(593,921)	24,499,577

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	278,952	2,817,245	20,566,062	23,662,259	(411,000)	-	(411,000)	23,251,259
Impaired	23,534	118,748	628,290	770,572	-	(293,640)	(293,640)	476,932
Loans as at March 31, 2018	302,486	2,935,993	21,194,352	24,432,831	(411,000)	(293,640)	(704,640)	23,728,191

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



The following table shows a reconciliation from the opening to the closing balance of the allowance for credit loss.

	June 30, 2018			
	Allowance for credit losses			
	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2018	110,259	147,304	314,884	572,447
Provision for credit losses				
Transfer to Stage 1 ⁽¹⁾	16,750	(15,833)	(917)	-
Transfer to Stage 2 ⁽¹⁾	(9,052)	21,788	(12,736)	-
Transfer to Stage 3 ⁽¹⁾	(380)	(6,075)	6,455	-
Net remeasurement of allowance for credit losses ⁽²⁾	(19,342)	6,781	36,365	23,804
Financial assets that have been fully repaid ⁽³⁾	(3,110)	(4,611)	(4,751)	(12,472)
New financial assets originated	19,162	4,681	-	23,843
Changes in models/risks parameters ⁽⁴⁾	-	-	-	-
Write-offs	-	-	(19,693)	(19,693)
Recoveries	-	-	3,913	3,913
Foreign exchange and other movements	29	48	2,002	2,079
Balance as at June 30, 2018	114,316	154,083	325,522	593,921

⁽¹⁾ Provides the movement from the previous period allowance for credit losses due to changes in stages prior to remeasurements.

⁽²⁾ Explains the movement in the allowance for credit losses attributable to changes in the loans credit risk, changes to inputs and assumptions and partial repayments.

⁽³⁾ Provides the movement in the allowance for credit losses from the loans that were fully repaid.

⁽⁴⁾ There was no change in model during the period.

	March 31, 2018
Balance as at April 1, 2017	696,882
Write-offs	(138,241)
Effect of discounting	(16,363)
Recoveries and other	8,823
	551,101
Provision for credit losses	153,539
Balance as at March 31, 2018	704,640

Concentrations of total loans outstanding and undisbursed commitments

Undisbursed amounts of authorized loans were \$3,139,424 as at June 30, 2018 (\$660,385 fixed rate; \$2,479,039 floating rate). The weighted-average effective interest rate was 5.0% on loan commitments (5.0% as at March 31, 2018).

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



The following tables present total loans outstanding and undisbursed amounts of authorized loans by location and industry.

Geographic distribution	June 30, 2018		March 31, 2018	
	Outstanding	Commitments	Outstanding	Commitments
Newfoundland and Labrador	887,196	51,124	877,891	65,037
Prince Edward Island	72,242	8,161	70,651	10,729
Nova Scotia	601,978	67,447	562,650	78,644
New Brunswick	483,413	35,204	494,334	39,447
Quebec	8,006,838	914,640	7,658,985	877,635
Ontario	6,861,656	891,397	6,689,723	841,715
Manitoba	700,895	84,193	726,386	132,416
Saskatchewan	794,980	53,125	800,563	50,501
Alberta	3,570,342	547,289	3,545,959	523,994
British Columbia	2,961,046	478,854	2,855,772	461,037
Yukon	109,624	4,642	108,548	3,561
Northwest Territories and Nunavut	43,288	3,348	41,369	2,820
Loans	25,093,498	3,139,424	24,432,831	3,087,536

Industry sector	June 30, 2018		March 31, 2018	
	Outstanding	Commitments	Outstanding	Commitments
Manufacturing	5,741,465	892,349	5,611,342	828,926
Wholesale and retail trade	4,676,782	447,766	4,579,060	440,197
Service industries	3,505,530	384,691	3,438,475	392,878
Tourism	3,187,980	353,042	3,046,763	414,777
Commercial properties	2,714,459	221,574	2,674,608	155,636
Construction	1,939,781	254,510	1,903,043	231,517
Transportation and storage	1,446,452	158,462	1,386,700	168,158
Resources	1,085,584	264,759	1,018,978	285,659
Other	795,465	162,271	773,862	169,788
Loans	25,093,498	3,139,424	24,432,831	3,087,536

The following table shows a reconciliation from the opening to the closing balance of the allowance for credit losses on commitments, which is included in other liabilities on the Consolidated Statement of Financial Position.

	June 30, 2018			
	Allowance for credit losses on commitments			
	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2018	16,320	5,367	-	21,687
Net remeasurement of the allowance for credit losses	(300)	868	-	568
Net increase (decrease) in commitments	1,650	(3,176)	-	(1,526)
Balance as at June 30, 2018	17,670	3,059	-	20,729

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



9.

Subordinate financing investments

BDC maintains a medium- to high-risk portfolio of subordinate financing investments. The following table summarizes outstanding subordinate financing investments by their contractual maturity date.

	Within 1 year	1 to 5 years	Over 5 years	Total cost	Total fair value
As at June 30, 2018	100,876	740,304	263,683	1,104,863	1,058,042
As at March 31, 2018	94,090	717,299	278,101	1,089,490	1,052,352

Concentrations of subordinate financing investments and commitments

Undisbursed amounts of authorized investments totalled \$115,749 as at June 30, 2018 (\$41,427 fixed rate; \$74,322 floating rate). The weighted average effective interest rate was 10.0% on subordinate financing commitments (10.0% as at March 31, 2018), excluding non-interest return.

The following tables present outstanding and undisbursed amounts of authorized subordinate financing investments, by location and industry.

Geographic distribution	June 30, 2018			March 31, 2018		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Newfoundland and Labrador	5,964	11,219	1,484	5,439	10,694	374
Nova Scotia	13,329	16,354	790	13,227	16,260	1,000
New Brunswick	25,096	23,886	200	23,353	22,122	4,200
Quebec	417,081	433,240	31,416	413,215	422,895	27,721
Ontario	369,372	374,799	67,229	356,729	362,113	62,112
Manitoba	5,777	5,851	-	7,382	5,864	-
Saskatchewan	47,186	49,632	1,100	46,111	48,557	1,100
Alberta	88,917	104,818	7,430	103,504	117,849	3,437
British Columbia	80,178	79,938	6,100	78,181	77,941	8,500
Yukon	530	553	-	542	565	-
Northwest Territories and Nunavut	4,612	4,573	-	4,669	4,630	-
Subordinate financing investments	1,058,042	1,104,863	115,749	1,052,352	1,089,490	108,444

Industry sector	June 30, 2018			March 31, 2018		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Manufacturing	313,083	329,967	53,338	316,080	329,636	44,948
Service industries	282,675	292,704	32,299	283,565	291,641	27,895
Wholesale and retail trade	207,498	217,173	14,828	203,862	212,427	14,784
Information industries	67,626	67,827	8,827	58,201	58,124	7,450
Construction	67,318	66,930	3,700	66,390	65,418	6,200
Resources	44,057	62,968	350	49,906	69,166	1,767
Transportation and storage	26,876	30,782	1,500	26,298	30,454	2,650
Tourism	13,468	13,773	907	8,562	8,867	2,750
Educational services	8,125	7,974	-	8,307	8,157	-
Other	27,316	14,765	-	31,181	15,600	-
Subordinate financing investments	1,058,042	1,104,863	115,749	1,052,352	1,089,490	108,444

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



10.

Venture capital investments

Through its Venture Capital (VC) and Venture Capital Incentive Programs (VCIP) segments, BDC maintains a high-risk portfolio of venture capital investments.

VC is focused on early-stage and fast-growing technology companies with promising positions in their respective marketplaces and strong growth potential. VCIP comprises two federal government initiatives: Venture Capital Action Plan (VCAP) and Venture Capital Catalyst Initiative (VCCI).

VCAP is a federal government initiative to invest \$400 million to increase private sector venture capital financing for high-potential, innovative Canadian businesses. VCAP invests primarily in early-stage and mid-stage venture capital funds, and directly in companies across Canada. VCAP supports the creation of large private sector-led funds of funds and also assists existing high-performing funds in partnership with institutional investors, corporate strategic investors and interested provinces.

Venture Capital Catalyst Initiative (VCCI) is also a government sponsored initiative whereby \$400 million is made available through BDC over three years to provide late-stage venture capital to support the growth of innovative start-ups.

All venture capital investments, which are held for a longer term, are non-current assets.

The following table presents a summary of the venture capital investments portfolio, and undisbursed amounts of authorized investments, by type of investment.

Investment type	June 30, 2018			March 31, 2018		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Direct investments	789,008	577,891	24,637	726,227	544,303	31,442
Funds ⁽¹⁾	969,429	740,946	318,717	937,400	741,818	346,600
Venture capital investments	1,758,437	1,318,837	343,354	1,663,627	1,286,121	378,042

⁽¹⁾ Included in the amounts above, VCIP investments, which were all VCAP related investments, had a fair value of \$422,879 and a cost of \$365,281 as at June 30, 2018 (\$400,516 and \$363,269, respectively, as at March 31, 2018). As at June 30, 2018, BDC's invested in 70 funds through its VC business line and 8 funds through VCIP (70 funds and 8 funds, respectively, as at March 31, 2018).

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Concentrations of total venture capital investments and commitments

The concentration by industry sector of direct investments are listed below.

Industry sector	June 30, 2018			March 31, 2018		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Information technology	334,588	239,235	11,001	303,064	232,627	10,962
Biotechnology and pharmacology	170,048	85,151	5,211	174,424	85,288	3,150
Industrial	65,724	17,234	559	57,747	15,197	-
Electronics	59,005	60,754	3,561	54,064	56,141	3,570
Communications	58,099	61,052	1,573	47,867	51,565	1,080
Energy	43,428	45,394	-	33,258	35,394	10,000
Medical and health	29,258	53,883	2,732	28,810	53,883	2,680
Other	28,858	15,188	-	26,993	14,208	-
Total direct investments	789,008	577,891	24,637	726,227	544,303	31,442
Funds	969,429	740,946	318,717	937,400	741,818	346,600
Venture capital investments	1,758,437	1,318,837	343,354	1,663,627	1,286,121	378,042

11.

Share capital

An unlimited number of common shares, having a par value of \$100 each, is authorized. As at June 30, 2018, there were 24,779,000 common shares outstanding (24,779,000 as at March 31, 2018).

Statutory limitations

As per the BDC Act, the debt-to-equity ratio of BDC may not exceed 12:1. This ratio is defined as the aggregate of borrowings recognized in the Consolidated Statement of Financial Position and contingent liabilities that exist in the form of financial guarantees issued by BDC over equity attributable to BDC's shareholder, which excludes accumulated other comprehensive income.

In addition, the paid-in capital, the contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments) must not at any time exceed \$4.5 billion.

During the three months ended June 30, 2018 and the year ended March 31, 2018, BDC met both of these statutory limitations.

Capital adequacy

BDC's capital management framework is based on its Internal Capital Adequacy Assessment Process (ICAAP). To assess its capital adequacy, BDC monitors its capital status regularly by comparing its available capital to its capital demand. A key measure for assessing the adequacy of BDC's capital status is its internal capital ratio.



12.

Segmented information

BDC reports on six business lines: Financing, Growth & Transition Capital, Venture Capital (VC), Advisory Services, Venture Capital Incentive Programs (VCIP) and Cleantech Practice. Each business line offers different products and services, and is managed separately based on BDC's management and internal reporting structure.

Venture Capital Incentive Programs (VCIP) combines the former Venture Capital Action Plan (VCAP) segment activities with Venture Capital Catalyst Initiative (VCCI).

The following summary describes the operations in each of the Bank's reportable segments.

- **Financing** provides secured, partially secured and unsecured loans with a focus on small and medium-sized enterprises across Canada. It also purchases investments in asset-backed securities through the Funding Platform for Independent Lenders (F-PIL). These securities are backed by vehicle and equipment loans and leases, as well as dealer floor plan loans.
- **Advisory Services** provides consulting services, supports high-impact firms, and provides group programs and other services related to business activities.
- **Growth & Transition Capital** provides subordinate financing by way of flexible debt, with or without convertible features, and equity-type financing.
- **Venture Capital** provides investments to cover every stage of a technology-based company's development cycle, from seed funding to expansion. BDC also makes indirect investments via venture capital investment funds.
- **Venture Capital Incentive Programs:** VCAP supports the creation of large private sector-led funds of funds and also assists existing high-performing funds in partnership with institutional investors, corporate strategic investors and interested provinces. VCCI provides late-stage venture capital to support the growth of innovative start-ups.
- **Cleantech Practice** provides subordinate financing and venture capital investments to promising clean technology firms.

The assumptions and methodologies used in BDC's reporting framework are periodically reviewed by management to ensure they remain valid. The main allocation methods used by BDC are described below.

Interest expense is allocated to each operating segment based on its business portfolio and the capital attributed to the segment. The attribution of capital to BDC's business segments is maintained in accordance with BDC's ICAAP and is consistently aligned with the economic risks of each specific business segment.

Operating and administrative expenses include costs that were incurred directly by the business segments. Indirect costs incurred at the enterprise level are attributed to each segment using management's internal reporting framework.

Loan and investment portfolios are managed separately based on BDC's business segments. None of the other assets or liabilities are managed by segment.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



The following tables provide financial information regarding the results of each reportable segment.

Three months ended
June 30, 2018

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice
Interest income	373,247	351,117	-	21,889	-	-	241
Interest expense	56,457	54,658	-	1,747	-	-	52
Net interest income	316,790	296,459	-	20,142	-	-	189
Net realized gains (losses) on investments	6,720	-	-	6,965	(245)	-	-
Revenue from Advisory Services	6,276	-	6,276	-	-	-	-
Fee and other income	12,517	5,400	20	6,261	763	62	11
Net revenue (loss)	342,303	301,859	6,296	33,368	518	62	200
Provision for credit losses	(36,709)	(36,709)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	39,792	24	-	(9,682)	29,203	20,247	-
Net foreign exchange gains (losses)	10,035	(2,826)	-	218	12,540	103	-
Net gains (losses) on other financial instruments	456	456	-	-	-	-	-
Income (loss) before operating and administrative expenses	355,877	262,804	6,296	23,904	42,261	20,412	200
Salaries and benefits	98,761	72,115	12,555	8,877	4,347	224	643
Premises and equipment	10,864	8,753	1,079	530	430	24	48
Other expenses	25,242	18,145	4,341	1,296	1,214	130	116
Operating and administrative expenses	134,867	99,013	17,975	10,703	5,991	378	807
Net income (loss)	221,010	163,791	(11,679)	13,201	36,270	20,034	(607)
Net income (loss) attributable to:							
BDC's shareholder	218,978	163,791	(11,679)	11,685	35,754	20,034	(607)
Non-controlling interests	2,032	-	-	1,516	516	-	-
Net income (loss)	221,010	163,791	(11,679)	13,201	36,270	20,034	(607)
Business segment portfolio as at June 30, 2018							
Asset-backed securities at FVTOCI	525,920	525,920					
Loans	24,499,577	24,499,577					
Asset-backed securities at FVTPL	8,613	8,613					
Subordinate financing investments	1,058,042	10,124		1,030,564			17,354
Venture capital investments	1,758,437				1,325,558	422,879	10,000
Total portfolio	27,850,589	25,044,234	-	1,030,564	1,325,558	422,879	27,354
Business segment undisbursed commitments as at June 30, 2018							
Loans	3,139,424	3,139,424					
Asset-backed securities	367,000	367,000					
Investments	459,103	910		102,130	318,467	24,887	12,709
Total commitments	3,965,527	3,507,334	-	102,130	318,467	24,887	12,709

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Three months ended
June 30, 2017

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice
Interest income	306,440	286,389	-	20,051	-	-	-
Interest expense	20,806	19,712	-	1,094	-	-	-
Net interest income	285,634	266,677	-	18,957	-	-	-
Net realized gains (losses) on investments	(15,214)	-	-	1,273	(16,487)	-	-
Revenue from Advisory Services	4,478	-	4,478	-	-	-	-
Fee and other income	10,408	4,678	61	5,459	155	55	-
Net revenue (loss)	285,306	271,355	4,539	25,689	(16,332)	55	-
Provision for credit losses	(43,915)	(43,915)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	49,636	(219)	-	(4,042)	42,647	11,250	-
Net foreign exchange gains (losses)	(17,533)	(2,245)	-	(150)	(15,023)	(115)	-
Net gains (losses) on other financial instruments	660	660	-	-	-	-	-
Income (loss) before operating and administrative expenses	274,154	225,636	4,539	21,497	11,292	11,190	-
Salaries and benefits	91,825	68,259	11,733	7,525	4,157	151	-
Premises and equipment	10,175	8,122	1,056	507	473	17	-
Other expenses	26,520	19,606	4,456	1,118	1,317	23	-
Operating and administrative expenses	128,520	95,987	17,245	9,150	5,947	191	-
Net income (loss)	145,634	129,649	(12,706)	12,347	5,345	10,999	-
Net income (loss) attributable to:							
BDC's shareholder	145,640	129,649	(12,706)	12,199	5,499	10,999	-
Non-controlling interests	(6)	-	-	148	(154)	-	-
Net income (loss)	145,634	129,649	(12,706)	12,347	5,345	10,999	-
Business segment portfolio as at June 30, 2017							
Asset-backed securities at FVTOCI	495,508	495,508					
Loans	22,320,509	22,320,509					
Asset-backed securities at FVTPL	10,228	10,228					
Subordinate financing investments	916,302	6,469		909,833			-
Venture capital investments	1,422,087				1,082,642	339,445	-
Total portfolio	25,164,634	22,832,714	-	909,833	1,082,642	339,445	-
Business segment undisbursed commitments as at June 30, 2017							
Loans	3,068,497	3,068,497					
Asset-backed securities	438,000	438,000					
Investments	479,990	-		79,887	327,695	72,408	-
Total commitments	3,986,487	3,506,497	-	79,887	327,695	72,408	-



13.

Guarantees

BDC issues “letters of credit, loan guarantees and portfolio guarantees” (guarantees) to support businesses. Those guarantees represent BDC’s obligation to make payments to third parties if clients are unable to meet their contractual commitments. Collateral requirements for guarantees are consistent with BDC collateral requirements for loans. The fee income earned is calculated on a straight-line basis over the life of the instrument and recognized in fee and other income in the Consolidated Statement of Income. The maximum contractual obligation under the guarantees totalled \$44.1 million as at June 30, 2018 (\$45.5 million as at March 31, 2018) and the existing terms expire within 136 months (within 139 months as at March 31, 2018). However, the actual exposure as at June 30, 2018, was \$33.1 million (\$34.4 million as at March 31, 2018).

These financial guarantees were initially recognized at fair value on the date the guarantees were given. The fair value was considered nil, as all guarantees were agreed to on arm’s-length terms and no initial fee was received. In addition, no receivable for the future expected fees was recognized. Subsequent recognition of a liability will only occur when it becomes more likely than not that a client will not meet its contractual commitments. As at June 30, 2018 and March 31, 2018, there were no liabilities recognized in the BDC’s Consolidated Statement of Financial Position related to these guarantees.

14.

Related party transactions

As at June 30, 2018 BDC had \$20,604 million outstanding in short-term notes and \$497 million long-term notes with Her Majesty the Queen in Right of Canada acting through the Minister of Finance (\$20,480 million in short-term notes and no long-term notes as at March 31, 2018).

BDC recorded \$58.4 million in interest expense, related to the borrowings from the Minister of Finance, for the first quarter. Last year’s comparative figure for the same period was \$21.4 million.

In addition, no borrowings with the Minister of Finance were repurchased in the first quarter of fiscal 2019 and fiscal 2018.

BDC is also related to all Government of Canada-created departments, agencies and Crown corporations. BDC enters into transactions with these entities in the normal course of business, under terms and conditions similar to those that apply to unrelated parties.



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