



2021

Financial Report

Third Quarter

December 31, 2020



Executive Summary

Canadian economic outlook

The economic recovery continued in late 2020, although at a slower rate than in the third quarter. Current estimates put GDP growth at about +2% in the fourth quarter, which would leave economic activity 3% below its year-ago level.

Overall, the labour market has stalled with no net job creation since November. Much of this is due to the weakness in the accommodation and food services sector where about 129,000 jobs have been lost since the end of summer. By contrast, growth has remained stronger in other sectors, with net job creation of 212,000 in the last quarter of 2020.

This dynamic illustrates the K-shaped recovery during the pandemic. By December, employment in accommodation and food services was at only 74% of its pre-crisis level while the rest of the labour market reached the level of 98%. Employment in professional services has even grown 5% since the start of the pandemic.

Meanwhile, retail sales are up 7.5% versus the previous year, driven by increases in household income from government transfers. The real estate market is also growing as housing starts remained robust, roughly matching their high 2019 levels. Resale activity was also vigorous in the latter part of 2020.

In addition, the outlook for the Canadian energy sector has improved, with oil prices now exceeding cost of production (US\$35 for the benchmark Western Canadian Select). This increase can be attributed to multiple factors. On the demand side, growth in China and the early approval of vaccines have led to an upward revision in oil demand for the second half of 2021. In terms of supply, the discipline of OPEC+ members—including unexpected unilateral cuts by Saudi Arabia—has convinced markets that a repeat of inventory buildups seen in the first phase of the pandemic was unlikely. Alberta's production is expected to return to pre-crisis levels in late 2021.

In the U.S., growth patterns resemble those of Canada as there has been a general weakening in late 2020 and a

stalled recovery in high personal contact-intensive sectors. If the proposed legislation of the Biden administration passes, it will mean further fiscal expansion.

Both the U.S. Federal Reserve and the Bank of Canada are expected to maintain expansionary monetary policies well past 2021. With interest rates at their effective lower bounds of 0.25%, officials of both central banks have indicated they are not considering negative interest rates for the time being. They have, however, stressed that other tools remain at their disposal, including yield curve control. The Bank of Canada has in recent months increased its focus on longer-term bonds in its quantitative easing program.

After hitting a low of \$0.69 USD during the first wave of the pandemic, the Canadian dollar has recovered and ended 2020 at \$0.79 USD, a level not seen since 2018. Rising oil prices, as well as the decline of the U.S. dollar against most currencies, explain the year-end strength of the loonie. The Canadian dollar is expected to remain in the range of \$0.76 USD to \$0.80 USD in 2021.

As containment measures against the spread of the coronavirus were reintroduced or increased in many provinces, growth prospects are modest for the first quarter of 2021 but should improve for the second half of the year with increased levels of vaccination. After a 5.6% decline in 2020, we expect GDP growth of close to 4.5% in 2021. As for the unemployment rate, our baseline scenario foresees a decline from 8.6% to 7.5% by year-end.

We continue to expect a full recovery of GDP by mid-2022, with employment levels returning to pre-pandemic levels by the end of that year.



Financial highlights

In response to the economic crisis resulting from the COVID-19 pandemic, and with the support of our shareholder, BDC launched a series of special measures to respond to the urgent needs of Canadian entrepreneurs. They include the Business Credit Availability Program (BCAP), which is delivered in collaboration with private financial institutions, and measures delivered directly by BDC. All of these measures are combined under the newly created business segment, the Credit Availability Program (CAP), to distinguish them from BDC core activities.

CAP will also include the Highly Affected Sectors Credit Availability Program (HASCAP) guarantee, which was recently announced by the Government of Canada. This program is designed to support businesses heavily impacted as a result of COVID-19 and struggling more than others to access financing. HASCAP is being developed by BDC in partnership with financial institutions to provide qualifying businesses with loans. BDC has been mandated by the Government of Canada to provide a net loss guarantee to financial institutions for the value of these loans. Under this program, BDC will also issue loans directly to its qualifying clients.

BDC has made some changes to its reporting structure to align with the delivery of its services. As a result, Growth Equity and Intellectual Property Investments, which were formerly included in the Growth and Transition Capital segment, are now reported in the Venture Capital segment. Furthermore, Cleantech Practice is now included in the Capital Incentive Programs (CIP) segment, which was previously named the Venture Capital Incentive Programs (VCIP) segment. The CIP segment now includes Venture Capital Action Plan (VCAP), Venture Capital Catalyst Initiative (VCCI) and Cleantech Practice. Refer to Note 11, *Segmented information*, and Note 14, *Comparative information*, of the Consolidated Financial Statements for complete details.

For the third quarter of fiscal 2021, BDC reported a net income of \$378.0 million, consisting of net income of \$414.8 million for the core business and a net loss of \$36.8 million for CAP. In comparison, BDC reported a net income of \$182.9 million for the same three-month period

of fiscal 2020. The higher results for the third quarter are mainly attributable to a lower provision for expected credit losses and higher net change in unrealized appreciation of Venture Capital investments.

For the nine-month period of fiscal 2021, BDC reported a net income of \$371.5 million, consisting of net income of \$660.0 million for the core business and a net loss of \$288.5 million for CAP. In comparison, BDC reported a net income of \$700.6 million for the same nine-month period of fiscal 2020. The lower results for the nine-month period of fiscal 2021 are primarily a result of a higher provision for credit losses taken in both the core and CAP portfolios at the beginning of the fiscal year.

Core activities

Financing clients accepted a total of \$1.6 billion in loans for the three-month period and \$3.8 billion for the nine-month period of fiscal 2021 compared to \$1.7 billion and \$6.0 billion, respectively, for the same periods last year. The decrease is partially explained by the shift in volume from our core activities to the new CAP segment. Financing's loans portfolio¹, excluding CAP loans, stood at \$27.6 billion as at December 31, 2020.

Net contracts signed for Advisory Services decreased in the third quarter of fiscal 2021 to \$8.1 million and \$11.8 million for the nine-month period, compared to \$8.5 million and \$24.2 million, respectively, for the same periods last year. Revenues also decreased, totalling \$5.4 million in the third quarter and \$13.7 million for the nine-month period ended December 31, 2020.

GTC clients accepted \$27.2 million in financing during the third quarter and \$97.2 million for the nine-month period compared to \$76.9 million and \$368.0 million, respectively, for the same periods last year. The decrease in acceptances reflects the expected lower demand for growth equity and business transition financing as entrepreneurs focused on rebuilding their working capital, and volumes shifted to CAP.

VC authorizations for the third quarter and the nine-month period of fiscal 2021 totalled \$137.8 million and \$264.4 million, respectively. In comparison, for the same periods last year, authorizations totalled \$50.3 million and

¹ Net of allowance for expected credit losses



\$221.4 million, respectively. The increase in authorizations for the third quarter was driven both by direct and indirect investments, which represented \$76.4 million and \$61.4 million compared to \$15.4 million and \$34.9 million for the same period last year. The increase in the nine-month period was mainly driven by direct investments, which represented \$178.5 million compared to \$119.0 million for the same period last year.

CIP authorizations for the third quarter and the nine-month period totalled \$39.2 million and \$120.5 million. In comparison for the same periods last year, authorizations totalled \$74.0 million and \$212.8 million, respectively.

BDC Capital launched a new intellectual property (IP) development financing envelope of \$160 million to support IP companies in Canada. This new envelope, which is the first of its kind in Canada, will provide customized, patient capital in the form of subordinate financing debt, convertible debt and equity to accelerate commercialization, and will be part of the VC segment. These will be scaling companies in knowledge-based industries with rich IP portfolios and at least \$1.0 million in annual revenue.

Credit Availability Program (CAP)

In response to the urgent pandemic-related needs of entrepreneurs and requests from the shareholder, the new CAP segment combines a wide range of initiatives through which we are accepting a higher level of credit risk impacted by, for example, changes to our eligibility criteria, lowering our credit threshold, and pricing below risk.

Total financing acceptances and investment authorizations for the CAP initiatives reached \$0.4 billion for the third quarter and \$3.3 billion for the nine-month period of fiscal 2021. CAP's loan portfolio² stood at \$2.8 billion as at December 31, 2020. Peak volumes were reached in the first half of the semester as the economy recovered and as companies continued to access other government liquidity supports. CAP initiatives include programs delivered in collaboration with private sector lenders and measures delivered directly by BDC, and are as follows:

² Net of allowance for expected credit losses

Co-Lending Program for SMEs

Through this initiative, the commercial support, developed by BDC in partnership with financial institutions, is intended to help Canadian businesses impacted by COVID-19 fund their operational cash flow needs. Eligible businesses may obtain incremental credit amounts up to \$12.5 million, 80% of which would be provided by BDC, with the remaining 20% from their financial institution.

Mid-Market Financing Program

For medium-sized businesses, under this program, BDC is making additional credit available to complement businesses' existing debt facilities, working closely with their primary lenders. These commercial loans ranging between \$12.5 million and \$60 million will take the form of a junior loan, of which 90% is provided by BDC and 10% by the entrepreneur's existing senior lender or syndicate.

The Business Credit Availability Program (BCAP), which includes the Co-Lending Program and the Mid-Market Financing Program, has been extended until June 2021 to continue to support access to capital for Canadian businesses of all sizes in all sectors and regions. BDC, in collaboration with other financial institutions, has continued to work to ensure credit remains available to entrepreneurs.

Direct lending

For online loan requests and working capital loans of up to \$2.0 million, we are offering flexible financing terms for qualifying businesses.

Venture Capital

To support Canada's venture capital market, we have launched a Bridge Financing Program. This is a matching convertible note program to increase VC funding to companies that have suffered significant setbacks related to the COVID-19 pandemic.



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

For more than 75 years, BDC's purpose has been to support entrepreneurs in all industries and all stages of growth. BDC provides access to financing, both online and in-person, as well as advisory services to help Canadian businesses grow and succeed. Its investment arm, BDC Capital, offers a wide range of capital solutions.



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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 Statement, profiles BDC's major risk categories, identifies significant existing and emerging risks, and provides in-depth portfolio monitoring.

The COVID-19 pandemic has negatively impacted the economic environment, creating economic uncertainty and hardship for numerous SMEs and Canadian Entrepreneurs. Given BDC's mandate and role as a development bank, BDC has put in place a number of programs to support companies during this difficult time and has seen a significant increase in demand for BDC's financing and support programs. These programs, some of which BDC implemented at the request of the Government deploy additional liquidity to support Canadian businesses and entrepreneurs that have been negatively impacted by the COVID-19 pandemic.



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 and nine-month periods ended December 31, 2020, compared to the corresponding period of the prior fiscal year.

Following the realignment of our business lines, BDC's business segments now include Financing, Advisory Services, Growth & Transition Capital (GTC), Venture Capital (VC), and Capital Incentive Programs (CIP) (previously named Venture Capital Incentive Programs (VCIP)). Cleantech Practice is now included in CIP. Refer to Note 11, *Segmented information* and Note 14, *Comparative information*, of the Consolidated Financial Statements for complete details.

All amounts are in Canadian dollars, unless otherwise specified, and are based on unaudited condensed quarterly Consolidated Financial Statements prepared 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.

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 December 31		Nine months ended December 31	
	F2021	F2020	F2021	F2020
Financing	250.0	136.7	379.8	420.1
Advisory Services	(10.6)	(10.8)	(29.6)	(33.4)
Growth & Transition Capital	25.8	11.0	15.9	33.0
Venture Capital	105.7	47.9	221.0	256.1
Capital Incentive Programs	43.9	(1.9)	72.9	24.8
Core net income	414.8	182.9	660.0	700.6
Credit Availability Program	(36.8)	-	(288.5)	-
Net income	378.0	182.9	371.5	700.6
Net income (loss) attributable to:				
BDC's shareholder	379.6	190.6	370.2	702.0
Non-controlling interests	(1.6)	(7.7)	1.3	(1.4)
Net income	378.0	182.9	371.5	700.6

Three and nine months ended December 31

For the quarter ended December 31, 2020, BDC's consolidated net income was \$378.0 million, comprising \$379.6 million of net income attributable to BDC's shareholder and a net loss of \$1.6 million attributable to non-controlling interests. For the equivalent period last year, the consolidated net income of \$182.9 million included a net income of \$190.6 million attributable to BDC's shareholder and a net loss of \$7.7 million attributable to non-controlling interests. BDC's consolidated Core net income was \$414.8 million compared to \$182.9 million reported for the same period last year.



For the nine months ended December 31, 2020, BDC recorded a consolidated net income of \$371.5 million compared to a net income of \$700.6 million recorded for the same period last year. The decrease in Core net income was mostly attributable to higher provision for expected credit losses in Financing. The net loss from CAP was mainly composed of the provision for expected credit losses and operating and administrative expenses, which primarily represent recharges from our core business to support CAP activities.

Consolidated comprehensive income (loss)

(\$ in millions)	Three months ended December 31		Nine months ended December 31	
	F2021	F2020	F2021	F2020
Net income	378.0	182.9	371.5	700.6
Other comprehensive income (loss) Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on FVOCI assets	0.2	(0.8)	6.8	(0.7)
Net change in unrealized gains (losses) on cash flow hedges	(0.3)	(0.3)	(0.9)	(0.9)
Total items that may be reclassified subsequently to net income	(0.1)	(1.1)	5.9	(1.6)
Items that will not be reclassified to net income				
Remeasurements of net defined benefit asset or liability	(19.6)	93.9	(432.5)	(8.7)
Other comprehensive income (loss)	(19.7)	92.8	(426.6)	(10.3)
Total comprehensive income (loss)	358.3	275.7	(55.1)	690.3
Total comprehensive income (loss) attributable to:				
BDC's shareholder	359.9	283.4	(56.4)	691.7
Non-controlling interests	(1.6)	(7.7)	1.3	(1.4)
Total comprehensive income (loss)	358.3	275.7	(55.1)	690.3

Three and nine months ended December 31

Consolidated total comprehensive income comprises net income (loss) 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 losses of \$19.7 million and \$426.6 million, respectively, for the third quarter and the nine-month period ended December 31, 2020, compared to other comprehensive income of \$92.8 million and other comprehensive losses of \$10.3 million for the same periods last year. The decrease in OCI for the nine-month period of fiscal 2021 was mainly attributable to a remeasurement loss of \$432.5 million on the net defined benefit asset or liability. This loss was due to lower than forecasted discount rates used to value the net defined benefit liability, partially offset by higher returns on pension plan assets.



Financing results

(\$ in millions)	Three months ended December 31		Nine months ended December 31	
	F2021	F2020	F2021	F2020
Net interest income	343.8	329.7	1,016.9	973.3
Fee and other income	6.8	5.7	18.1	17.2
Provision for expected credit losses	(2.9)	(70.1)	(383.2)	(199.4)
Net change in unrealized appreciation (depreciation) of investments	-	(0.2)	(4.5)	0.6
Net foreign exchange gains (losses)	(1.6)	(0.7)	(2.3)	(3.2)
Net gains (losses) on other financial instruments	0.4	-	0.9	0.2
Income before operating and administrative expenses	346.5	264.4	645.9	788.7
Operating and administrative expenses	96.5	127.7	266.1	368.6
Net income from Financing	250.0	136.7	379.8	420.1

As % of average portfolio	Three months ended December 31		Nine months ended December 31	
	F2021	F2020	F2021	F2020
Net interest income	4.6	4.5	4.5	4.6
Fee and other income	0.1	0.1	0.1	0.1
Provision for expected credit losses	-	(1.0)	(1.7)	(0.9)
Income before operating and administrative expenses	4.7	3.6	2.9	3.8
Operating and administrative expenses	1.3	1.7	1.2	1.7
Net income from Financing	3.4	1.9	1.7	2.1

Three and nine months ended December 31

Net income from Financing was \$250.0 million for the third quarter of fiscal 2021 and \$379.8 million for the nine-month period ended December 31, 2020, compared to a net income of \$136.7 million and \$420.1 million, respectively, for the same periods last year. The increase in net income from Financing for the three-month period ended December 31, 2020 resulted mainly from higher net interest income, lower provision for expected credit losses, and lower operating and administrative expenses. The decrease in profitability for the nine months ended December 31, 2020 was mainly due to higher provision for expected credit losses taken in the first six months of fiscal 2021 to reflect the impact of the economic downturn stemming from the COVID-19 pandemic. This was partially offset by higher net interest income from portfolio growth and lower operating and administrative expenses.

Operating and administrative expenses for the quarter and nine months ended December 31, 2020 were \$96.5 million and \$266.1 million, lower than the \$127.7 million and \$368.6 million, respectively, in the corresponding periods last year. The decrease in operating and administrative expenses was mainly due to expenses recharged to the CAP segment as financing activities shifted to support the CAP initiatives.



Advisory Services results

(\$ in millions)	Three months ended December 31		Nine months ended December 31	
	F2021	F2020	F2021	F2020
Revenue	5.4	7.7	13.7	21.6
Delivery expenses ⁽¹⁾	3.1	4.6	8.1	13.1
Gross operating margin	2.3	3.1	5.6	8.5
Operating and administrative expenses	12.9	13.9	35.2	41.9
Net loss from Advisory Services	(10.6)	(10.8)	(29.6)	(33.4)

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

Three and nine months ended December 31

A net loss of \$10.6 million was recorded for the third quarter of fiscal 2021, compared to a \$10.8 million net loss recorded for the same quarter last year. Cumulative net loss for the nine-month period ended December 31, 2020 was \$29.6 million, compared to a net loss of \$33.4 million for the same period last year. The \$3.8 million favourable variance for the nine-month period ended December 31, 2020 was mainly driven by lower operating and administrative expenses.

Revenue amounted to \$13.7 million for the nine months ended December 31, 2020, \$7.9 million lower than the \$21.6 million recorded for the same period last year. Gross operating margin, at \$5.6 million for the nine months ended December 31, 2020, was lower than the \$8.5 million recorded for the same period last year, driven mainly by lower revenues. As expected, revenues from Advisory Services were impacted by the economic downturn as business development halted during the first three months of the fiscal year due to the pandemic and entrepreneurs postponing their consulting mandates.

Operating and administrative expenses of \$12.9 million for the three-month period were slightly lower than the \$13.9 million recorded for the corresponding period of fiscal 2020. Operating and administrative expenses of \$35.2 million for the nine-month period ended December 31, 2020, were lower than the \$41.9 million recorded for the corresponding period of fiscal 2020, mainly due to expenses recharged to the CAP segment as employees were redeployed to support CAP activities during the first half of the fiscal year.



Growth & Transition Capital results

	Three months ended December 31		Nine months ended December 31	
	F2021	F2020	F2021	F2020
(\$ in millions)				
Net revenue on investments	24.3	29.7	70.1	93.4
Net change in unrealized appreciation (depreciation) of investments	12.3	(7.8)	(26.2)	(25.9)
Net foreign exchange gains (losses)	(1.2)	(0.4)	(2.4)	(0.5)
Income before operating and administrative expenses	35.4	21.5	41.5	67.0
Operating and administrative expenses	9.6	10.5	25.6	34.0
Net income from Growth & Transition Capital	25.8	11.0	15.9	33.0
Net income (loss) attributable to:				
BDC's shareholder	25.8	11.5	16.6	31.9
Non-controlling interests	-	(0.5)	(0.7)	1.1
Net income from Growth & Transition Capital	25.8	11.0	15.9	33.0

	Three months ended December 31		Nine months ended December 31	
	F2021	F2020	F2021	F2020
As % of average portfolio				
Net revenue on investments	8.9	10.4	8.5	11.3
Net change in unrealized appreciation (depreciation) of investments	4.5	(2.7)	(3.2)	(3.1)
Net foreign exchange gains (losses)	(0.4)	(0.1)	(0.3)	(0.1)
Income before operating and administrative expenses	13.0	7.6	5.0	8.1
Operating and administrative expenses	3.5	3.7	3.1	4.1
Net income from Growth & Transition Capital	9.5	3.9	1.9	4.0
Net income (loss) attributable to:				
BDC's shareholder	9.5	4.1	2.0	3.9
Non-controlling interests	-	(0.2)	(0.1)	0.1
Net income from Growth & Transition Capital	9.5	3.9	1.9	4.0

Three and nine months ended December 31

Net income reached \$25.8 million for the third quarter of fiscal 2021 compared to net income of \$11.0 million recorded for the same period last year. For the nine months ended December 31, 2020, GTC recorded a net income of \$15.9 million, compared to \$33.0 million for the same period of fiscal 2020. Results for the three-month period were positively impacted by higher net change in unrealized appreciation of investments. The decrease of the nine-month period income is explained mainly by lower revenue on investments.



GTC recorded a net change in unrealized appreciation on investments of \$12.3 million in the third quarter and a net change in unrealized depreciation of investments of \$26.2 million for the first nine months of fiscal 2021, compared to a net change in unrealized depreciation on investments of \$7.8 million and \$25.9 million, respectively, during the same periods last year, as detailed below. The \$26.2 million net change in unrealized depreciation on investments for the first nine-month period of fiscal 2021 was mainly explained by the net fair value depreciation of \$46.5 million, partially offset by the \$20.3 million reversal of net fair value depreciation due to realized income and write-offs.

(\$ in millions)	Three months ended December 31		Nine months ended December 31	
	F2021	F2020	F2021	F2020
Net fair value appreciation (depreciation)	(1.9)	(10.3)	(46.5)	(35.4)
Reversal of net fair value depreciation (appreciation) due to realized income and write-offs	14.2	2.5	20.3	9.5
Net change in unrealized appreciation (depreciation) of investments	12.3	(7.8)	(26.2)	(25.9)

Operating and administrative expenses amounted to \$25.6 million for the nine-month period ended December 31, 2020, lower than the \$34.0 million recorded last year. The decrease was mainly due to expenses recharged to the CAP segment as employees were redeployed to support CAP activities.

Venture Capital results

(\$ in millions)	Three months ended December 31		Nine months ended December 31	
	F2021	F2020	F2021	F2020
Net revenue on investments	30.8	2.7	40.5	228.9
Net change in unrealized appreciation (depreciation) of investments	114.3	71.7	269.6	76.7
Net foreign exchange gains (losses)	(29.9)	(13.5)	(62.4)	(19.7)
Income before operating and administrative expenses	115.2	60.9	247.7	285.9
Operating and administrative expenses	9.5	13.0	26.7	29.8
Net income from Venture Capital	105.7	47.9	221.0	256.1
Net income (loss) attributable to:				
BDC's shareholder	107.3	55.1	219.0	258.6
Non-controlling interests	(1.6)	(7.2)	2.0	(2.5)
Net income from Venture Capital	105.7	47.9	221.0	256.1



Three and nine months ended December 31

During the third quarter of fiscal 2021, VC recorded a net income of \$105.7 million, compared to a net income of \$47.9 million for the same period last year. For the nine months ended December 31, 2020, VC's net income was \$221.0 million, compared to \$256.1 million for the same period last year. Results for the third quarter were favourably impacted by higher net revenue on investments and higher net change in unrealized appreciation of investments, partially offset by higher net foreign exchange losses. The decrease in net income for the nine months ended December 31, 2020 was mainly attributable to lower net revenue on investments and higher net foreign exchange losses, which was more than compensated by higher net change in unrealized appreciation of investments.

VC recorded a net change in unrealized appreciation of investments of \$114.3 million for the third quarter and of \$269.6 million for the nine months ended December 31, 2020, compared to a net change in unrealized appreciation of investments of \$71.7 million and \$76.7 million, respectively, for the same periods last year, as detailed below.

(\$ in millions)	Three months ended December 31		Nine months ended December 31	
	F2021	F2020	F2021	F2020
Net fair value appreciation	136.3	68.0	268.3	271.4
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	(22.0)	3.7	1.3	(194.7)
Net change in unrealized appreciation (depreciation) of investments	114.3	71.7	269.6	76.7

In the third quarter and nine-month period of fiscal 2021, net foreign exchange losses on investments of \$29.9 million and \$62.4 million were recorded due to foreign exchange fluctuations in the portfolio in U.S. dollars, compared to net foreign exchange losses on investments of \$13.5 million and \$19.7 million recorded for the corresponding periods last year.

On a year-to-date basis, operating and administrative expenses were \$26.7 million for the first nine months of fiscal 2021, lower than the \$29.8 million recorded for the corresponding period last fiscal.

Capital Incentive Programs results

(\$ in millions)	Three months ended December 31		Nine months ended December 31	
	F2021	F2020	F2021	F2020
Net revenue on investments	5.5	3.5	9.8	8.0
Net change in unrealized appreciation (depreciation) of investments	40.7	(4.0)	68.7	21.1
Net foreign exchange gains (losses)	(0.9)	(0.1)	(1.9)	(0.1)
Income (loss) before operating and administrative expenses	45.3	(0.6)	76.6	29.0
Operating and administrative expenses	1.4	1.3	3.7	4.2
Net income (loss) from Capital Incentive Programs	43.9	(1.9)	72.9	24.8



Three and nine months ended December 31

During the third quarter of fiscal 2021, CIP recorded a net income of \$43.9 million, compared to a net loss of \$1.9 million for the same period last year. For the nine-month period ended December 31, 2020, CIP recorded net income of \$72.9 million, compared to net income of \$24.8 million for the same period last year.

The increase in the third quarter and the first nine months of fiscal 2021 was mainly due to higher net fair value appreciation on investments compared to the equivalent period last fiscal.

Credit Availability Program results

(\$ in millions)	Three months ended December 31		Nine months ended December 31	
	F2021	F2020	F2021	F2020
Net interest income	22.3	-	43.0	-
Fee and other income	3.3	-	8.1	-
Provision for expected credit losses	(31.7)	-	(217.5)	-
Net gains (losses) on investments	0.5	-	0.6	-
Net foreign exchange gains (losses)	(1.6)	-	(1.9)	-
Loss before operating and administrative expenses	(7.2)	-	(167.7)	-
Operating and administrative expenses	29.6	-	120.8	-
Net loss from Credit Availability Program	(36.8)	-	(288.5)	-

Three and nine months ended December 31

CAP recorded a net loss of \$36.8 million and \$288.5 million for the three-month and nine-month periods ended December 31, 2020, mainly driven by the provision for expected credit losses on loans of \$31.7 million and \$217.5 million, respectively, reflecting current economic uncertainty due to the pandemic. The operating and administrative expenses of \$29.6 million and \$120.8 million for the three-month and nine-month periods are explained by the costs incurred in the start-up phase of this new portfolio, resulting mainly from employees' efforts to deploy CAP initiatives and handle the very high demand. The level of recharges is expected to decrease over time as the portfolio stabilizes.

Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows

As at December 31, 2020, total BDC assets amounted to \$35.9 billion, an increase of \$2.7 billion from March 31, 2020, largely due to the \$3.1 billion increase in our net loans portfolio.

At \$30.4 billion, the loans portfolio represented BDC's largest asset (gross portfolio of \$32.1 billion less a \$1.7 billion allowance for expected credit losses). The gross loans portfolio grew by 12.7% over the nine months after March 31, 2020, reflecting an increase in the level of activity of CAP, which accounts for \$3.0 billion in additional loans.



BDC's subordinate financing and venture capital investment portfolios stood at \$3.6 billion, compared to \$3.0 billion as at March 31, 2020. The increase of \$0.6 billion was mainly driven by net disbursements and net fair value appreciation for VC investments. The asset-backed securities portfolio stood at \$741.7 million, compared to \$777.8 million as at March 31, 2020.

As at December 31, 2020, the fair value of derivative assets was \$11.7 million and the fair value of derivative liabilities was nil. Net derivative fair value increased by \$15.4 million since March 31, 2020.

As at December 31, 2020, BDC recorded a net defined benefit liability of \$653.7 million for the registered pension plan and the other plans. This represented an increase of \$407.3 million, compared to the total net defined benefit liability as at March 31, 2020, primarily as a result of remeasurement losses recorded in the first nine months of fiscal 2021. Refer to page 9 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. BDC liquidities, which ensure funds are available to meet its cash outflows, totalled \$0.9 billion as at December 31, 2020, compared to \$1.8 billion as at March 31, 2020. BDC's Treasury Risk Policy was amended on May 13, 2020 to raise the maximum liquidity level from 30 days to 90 days to cover for the higher operational and funding risks and ensure the level of liquidity is sufficient in response to major disruptions during the COVID-19 pandemic.

For the nine-month period ended December 31, 2020, operating activities used \$3.0 billion, mainly to support the growth of the loans portfolio. Cash flows used by investing activities amounted to \$0.3 billion, reflecting net disbursements for GTC and VC investments, and asset-backed securities. Financing activities provided \$2.4 billion in cash flow, mainly as a result of \$7.5 billion in common shares issuance and \$0.7 billion of long-term notes issuance, offset by a \$5.8 billion net repayment on short-term loans.

As at December 31, 2020, BDC funded its portfolios and liquidities with borrowings of \$18.4 billion and total equity of \$16.3 billion. Borrowings comprised \$13.6 billion in short-term notes and \$4.9 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.

On May 5, 2020, the Board of Directors approved a new capital management framework to ensure effective capital management in alignment with regulatory guidelines (OSFI/Basel) and with other Canadian Financial Institutions. BDC strives to continuously evolve its capital adequacy techniques and measures to better reflect the Bank's inherent risks while integrating industry best practices. The new capital management framework incorporates changes in both the available capital definition as well as in the required capital quantification. The new framework became effective April 1, 2020.

Available capital

Modifications arising from the new Capital Management framework primarily relate to the collective allowance addback to capital as prescribed in OSFI's Capital Adequacy Requirements under the Standardized Approach.

Required capital

Modifications arising from the new Capital Management framework primarily relate to the removal of capital reserves (Stress testing and VC), the alignment to industry standards for solvency rating, adjustment of the operating range definition and the update of economic capital models validated by third parties.



BDC's internal capital ratio, excluding CIP and CAP, stood at 109.6% as at December 31, 2020, below its target capital ratio of 110%, compared to 112% as at March 31, 2020. The decrease in our internal capital ratio was primarily attributable to the volatility in the market rates used to measure our net defined benefit liability resulting in an other comprehensive loss of \$432.5 million for the nine-month period and also an increase in provision for expected credit losses that reduced available capital. Despite this unfavourable impact, our regulatory capital ratio is well above the minimum regulatory capital requirements and BDC is well positioned to continue to support Canadians SMEs.



Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)

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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
Chief Financial Officer

Montreal, Canada
February 24, 2021



Consolidated Statement of Financial Position

(unaudited)

(in thousands of Canadian dollars)	Notes	December 31, 2020	March 31, 2020
ASSETS			
Cash and cash equivalents		906,577	1,821,397
Derivative assets		11,652	12,356
Loans			
Loans, gross carrying amount	6	32,078,617	28,472,261
Less: allowance for expected credit losses	6	(1,684,663)	(1,199,173)
Loans, net of allowance for expected credit losses		30,393,954	27,273,088
Investments			
Asset-backed securities	7	741,661	777,838
Subordinate financing investments	8	1,310,893	1,240,588
Venture capital investments	9	2,246,988	1,721,136
Total investments		4,299,542	3,739,562
Property and equipment		72,263	67,704
Intangible assets		40,288	41,525
Right-of-use-assets		122,183	127,523
Net defined benefit asset		-	41,781
Other assets		35,385	28,422
Total assets		35,881,844	33,153,358
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities		172,454	158,292
Derivative liabilities		45	16,125
Borrowings			
Short-term notes		13,562,359	19,362,224
Long-term notes		4,872,266	4,207,066
Total borrowings		18,434,625	23,569,290
Lease Liabilities			
Short-term lease liabilities		12,661	12,063
Long-term lease liabilities		121,825	125,138
Total lease liabilities		134,486	137,201
Net defined benefit liability		653,710	246,443
Other liabilities		135,872	123,208
Total liabilities		19,531,192	24,250,559
Equity			
Share capital	10	11,511,900	4,008,900
Contributed surplus		27,778	27,778
Retained earnings		4,783,971	4,846,219
Accumulated other comprehensive income		14,667	8,763
Equity attributable to BDC's shareholder		16,338,316	8,891,660
Non-controlling interests		12,336	11,139
Total equity		16,350,652	8,902,799
Total liabilities and equity		35,881,844	33,153,358

Guarantees (Note 12)

Commitments (Notes 6, 7, 8, and 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 December 31		Nine months ended on December 31	
	2020	2019	2020	2019
Interest income	412,242	450,190	1,199,587	1,326,476
Interest expense	21,926	95,604	71,407	280,533
Net interest income	390,316	354,586	1,128,180	1,045,943
Net realized gains (losses) on investments	32,949	594	34,914	220,626
Revenue from Advisory Services	5,397	7,661	13,681	21,562
Fee and other income	14,134	16,188	43,983	54,199
Net revenue	442,796	379,029	1,220,758	1,342,330
Provision for expected credit losses	(34,598)	(70,143)	(600,695)	(199,353)
Net change in unrealized appreciation (depreciation) of investments	167,284	59,775	307,549	72,493
Net foreign exchange gains (losses)	(35,222)	(14,959)	(70,759)	(23,605)
Net gains (losses) on other financial instruments	362	33	855	181
Income before operating and administrative expenses	540,622	353,735	857,708	1,192,046
Salaries and benefits	108,441	113,214	328,818	332,081
Premises and equipment	10,713	10,462	31,364	32,451
Other expenses	43,405	47,156	126,024	126,895
Operating and administrative expenses	162,559	170,832	486,206	491,427
Net income	378,063	182,903	371,502	700,619
Net income (loss) attributable to:				
BDC's shareholder	379,668	190,601	370,213	702,010
Non-controlling interests	(1,605)	(7,698)	1,289	(1,391)
Net income	378,063	182,903	371,502	700,619

The accompanying notes are an integral part of these Consolidated Financial Statements. Note 11 provides additional information on segmented net income.



Consolidated Statement of Comprehensive Income (Loss)

(unaudited)

(in thousands of Canadian dollars)	Three months ended December 31		Nine months ended on December 31	
	2020	2019	2020	2019
Net income	378,063	182,903	371,502	700,619
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on fair value through other comprehensive income assets	182	(831)	6,835	(716)
Net change in unrealized gains (losses) on cash flow hedges	(340)	(281)	(931)	(874)
Total items that may be reclassified subsequently to net income	(158)	(1,112)	5,904	(1,590)
Items that will not be reclassified to net income				
Remeasurements of net defined benefit asset or liability	(19,549)	93,890	(432,461)	(8,692)
Other comprehensive income (loss)	(19,707)	92,778	(426,557)	(10,282)
Total comprehensive income (loss)	358,356	275,681	(55,055)	690,337
Total comprehensive income (loss) attributable to:				
BDC's shareholder	359,961	283,379	(56,344)	691,728
Non-controlling interests	(1,605)	(7,698)	1,289	(1,391)
Total comprehensive income (loss)	358,356	275,681	(55,055)	690,337

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

Consolidated Statement of Changes in Equity

For the three months ended December 31
(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 ⁽¹⁾	Cash flow hedges	Total			
Balance as at September 30, 2020	11,511,900	27,778	4,423,852	11,919	2,906	14,825	15,978,355	13,900	15,992,255
Total comprehensive income (loss)									
Net income			379,668				379,668	(1,605)	378,063
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on fair value through other comprehensive income assets				182		182	182		182
Net change in unrealized gains (losses) on cash flow hedges					(340)	(340)	(340)		(340)
Remeasurements of net defined benefit asset or liability			(19,549)				(19,549)		(19,549)
Other comprehensive income (loss)	-	-	(19,549)	182	(340)	(158)	(19,707)	-	(19,707)
Total comprehensive income (loss)	-	-	360,119	182	(340)	(158)	359,961	(1,605)	358,356
Capital injections from non-controlling interests								41	41
Transactions with owner, recorded directly in equity	-	-	-	-	-	-	-	41	41
Balance as at December 31, 2020	11,511,900	27,778	4,783,971	12,101	2,566	14,667	16,338,316	12,336	16,350,652
(in thousands of Canadian dollars)									
Balance as at September 30, 2019	3,064,900	27,778	5,356,501	2,866	4,029	6,895	8,456,074	45,133	8,501,207
Total comprehensive income									
Net income			190,601				190,601	(7,698)	182,903
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on fair value through other comprehensive income assets				(831)		(831)	(831)		(831)
Net change in unrealized gains (losses) on cash flow hedges					(281)	(281)	(281)		(281)
Remeasurements of net defined benefit asset or liability			93,890				93,890		93,890
Other comprehensive income (loss)	-	-	93,890	(831)	(281)	(1,112)	92,778	-	92,778
Total comprehensive income	-	-	284,491	(831)	(281)	(1,112)	283,379	(7,698)	275,681
Distributions to non-controlling interests								(2,627)	(2,627)
Capital injections from non-controlling interests								39	39
Transactions with owner, recorded directly in equity	-	-	-	-	-	-	-	(2,588)	(2,588)
Balance as at December 31, 2019	3,064,900	27,778	5,640,992	2,035	3,748	5,783	8,739,453	34,847	8,774,300

⁽¹⁾ Fair value through other comprehensive income assets

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



Consolidated Statement of Changes in Equity

For the nine months ended December 31
(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 ⁽¹⁾	Cash flow hedges	Total			
Balance as at March 31, 2020	4,008,900	27,778	4,846,219	5,266	3,497	8,763	8,891,660	11,139	8,902,799
Total comprehensive income (loss)									
Net income			370,213				370,213	1,289	371,502
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on fair value through other comprehensive income assets				6,835		6,835	6,835		6,835
Net change in unrealized gains (losses) on cash flow hedges					(931)	(931)	(931)		(931)
Remeasurements of net defined benefit asset or liability			(432,461)				(432,461)		(432,461)
Other comprehensive income (loss)	-	-	(432,461)	6,835	(931)	5,904	(426,557)	-	(426,557)
Total comprehensive income (loss)	-	-	(62,248)	6,835	(931)	5,904	(56,344)	1,289	(55,055)
Distributions to non-controlling interests								(144)	(144)
Capital injections from non-controlling interests								52	52
Issuance of common shares	7,503,000						7,503,000		7,503,000
Transactions with owner, recorded directly in equity	7,503,000	-	-	-	-	-	7,503,000	(92)	7,502,908
Balance as at December 31, 2020	11,511,900	27,778	4,783,971	12,101	2,566	14,667	16,338,316	12,336	16,350,652

(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 ⁽¹⁾	Cash flow hedges	Total			
Balance as at March 31, 2019	2,602,900	27,778	5,076,074	2,751	4,622	7,373	7,714,125	41,635	7,755,760
Total comprehensive income									
Net income			702,010				702,010	(1,391)	700,619
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on fair value through other comprehensive income assets				(716)		(716)	(716)		(716)
Net change in unrealized gains (losses) on cash flow hedges					(874)	(874)	(874)		(874)
Remeasurements of net defined benefit asset or liability			(8,692)				(8,692)		(8,692)
Other comprehensive income (loss)	-	-	(8,692)	(716)	(874)	(1,590)	(10,282)	-	(10,282)
Total comprehensive income	-	-	693,318	(716)	(874)	(1,590)	691,728	(1,391)	690,337
Dividends on common shares			(128,400)				(128,400)		(128,400)
Distributions to non-controlling interests								(5,436)	(5,436)
Capital injections from non-controlling interests								39	39
Issuance of common shares	462,000						462,000		462,000
Transactions with owner, recorded directly in equity	462,000	-	(128,400)	-	-	-	333,600	(5,397)	328,203
Balance as at December 31, 2019	3,064,900	27,778	5,640,992	2,035	3,748	5,783	8,739,453	34,847	8,774,300

⁽¹⁾ Fair value through other comprehensive income assets

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



Consolidated Statement of Cash Flows

(unaudited)

(in thousands of Canadian dollars)	Three months ended December 31		Nine months ended December 31	
	2020	2019	2020	2019
Operating activities				
Net income	378,063	182,903	371,502	700,619
Adjustments to determine net cash flows				
Interest income	(412,242)	(450,190)	(1,199,587)	(1,326,476)
Interest expense	21,411	95,131	69,825	279,089
Interest on lease liabilities	515	473	1,582	1,444
Net realized losses (gains) on investments	(32,949)	(594)	(34,914)	(220,626)
Provision for expected credit losses	34,598	70,143	600,695	199,353
Net change in unrealized depreciation (appreciation) of investments	(167,284)	(59,775)	(307,549)	(72,493)
Net unrealized foreign exchange losses (gains)	46,809	16,200	109,269	23,262
Net unrealized losses (gains) on other financial instruments	(21)	248	77	692
Defined benefits funding below (in excess of) amounts expensed	9,206	12,083	16,585	23,632
Depreciation of property and equipment, and amortization of intangible assets	5,770	5,022	16,363	14,447
Depreciation of right-of-use assets	3,806	3,367	11,574	10,392
Other	(10,336)	(1,885)	(25,095)	(8,696)
Interest expense paid	(19,663)	(89,405)	(71,797)	(272,049)
Interest income received	405,763	437,004	1,164,914	1,305,826
Changes in operating assets and liabilities				
Net change in loans	(653,963)	(349,598)	(3,687,361)	(1,512,428)
Net change in accounts payable and accrued liabilities	(35,934)	18,932	14,162	(20,491)
Net change in other assets and other liabilities	(73)	9,145	(23,033)	17,672
Net cash flows provided (used) by operating activities	(426,524)	(100,796)	(2,972,788)	(856,831)
Investing activities				
Disbursements for asset-backed securities	(112,164)	(91,021)	(206,966)	(322,828)
Repayments and proceeds on sale of asset-backed securities	86,459	84,073	250,024	263,002
Disbursements for subordinate financing investments	(90,659)	(126,289)	(277,999)	(456,121)
Repayments of subordinate financing investments	128,702	96,961	230,358	275,266
Disbursements for venture capital investments	(145,362)	(73,676)	(392,783)	(220,047)
Proceeds on sale of venture capital investments	49,887	59,208	111,499	369,389
Acquisition of property and equipment	(6,281)	(4,072)	(12,837)	(14,489)
Acquisition of intangible assets	(1,404)	(5,002)	(6,849)	(10,132)
Net cash flows provided (used) by investing activities	(90,822)	(59,818)	(305,553)	(115,960)
Financing activities				
Net change in short-term notes	(452,000)	(470,000)	(5,793,855)	(1,490,000)
Issue of long-term notes	170,000	725,000	665,000	2,205,000
Distributions to non-controlling interests	-	(2,627)	(144)	(5,436)
Capital injections from non-controlling interests	41	39	52	39
Issuance of common shares	-	-	7,503,000	462,000
Dividends paid on common shares	-	-	-	(128,400)
Payment of lease liabilities	(4,149)	(3,732)	(10,532)	(11,339)
Net cash flows provided (used) by financing activities	(286,108)	248,680	2,363,521	1,031,864
Net increase (decrease) in cash and cash equivalents	(803,454)	88,066	(914,820)	59,073
Cash and cash equivalents at beginning of period	1,710,031	674,987	1,821,397	703,980
Cash and cash equivalents at end of period	906,577	763,053	906,577	763,053

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 advisory 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.

BDC is accountable for its affairs to Parliament through the Minister of Small Business, Export Promotion and International Trade.

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, 2020. They should be read in conjunction with the audited Consolidated Financial Statements for the year ended March 31, 2020 and the accompanying notes as set out on pages 62 to 128 of BDC's 2020 Annual Report.

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, 2021. 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 February 24, 2021.



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, 2020, with the exception of the following change to Note 24, *Risk management* of the 2020 Annual Report: BDC's Treasury Risk Policy was amended on May 13, 2020 to raise the maximum liquidity level from 30 days to 90 days to cover for the higher operational and funding risks and ensure the level of liquidity is sufficient in response to major disruptions during the COVID-19 pandemic. There have also been some changes to our business segments, as outlined in Note 11, *Segmented Information* and Note 14, *Comparative Information*. 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 2020 Annual Report and the accompanying notes, as set out on pages 62 to 128 of our 2020 Annual Report.

4.

Significant accounting judgements, estimates and assumptions

Preparation of the Consolidated Financial Statements 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.

For information about the significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the condensed quarterly Consolidated Financial Statements, refer to page 79 of our 2020 Annual Report.

Uncertainties related to COVID-19

Since March 2020, the Coronavirus outbreak rapidly evolved resulting in an economic crisis. The economic environment remains uncertain at the reporting date and continues to have a significant impact on our financial results. The recovery will depend on the speed at which the outbreak is controlled. As at December 31, 2020, in light of the current uncertainty, significant judgement was made in the assessment of the impact of COVID-19 on the allowance for expected credit losses (ECL), particularly with regards to the macro-economic scenarios and the corresponding weights of these scenarios, including expert credit judgement as considered necessary, which contributed to an increase in loans classified in stage 2 and a higher level of allowance for expected credit losses. Actual results may differ materially from those recorded for the nine-month period ended on December 31, 2020.

As a result of the spread of COVID-19, the fair value measurements of our subordinated financing and venture capital investments were impacted by the volatility in financial markets. For our investments whose fair value cannot be derived from active markets, our valuation techniques have taken into consideration inputs that are derived from observable market data. Adjustments were made based on public market trading comparables and investment-specific characteristics, and we used a net asset, market, or income approach adjusted for industry factors. For our direct venture capital investments, we made an assessment of their going-concern assumption based on the expected financial challenges the investees are experiencing with special attention to most impacted industries. Changes in these assumptions may have a significant impact on the valuations.



5.

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 Level 1 and Level 2 or between Level 2 and Level 3 in the reporting periods. BDC's policy is to recognize transfers between Level 1 and Level 3 when private investments become publicly traded or public investments become private investments during the reporting periods.



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

	Fair value measurements using			December 31, 2020
	Level 1	Level 2	Level 3	Total fair value
Assets				
Derivative assets	-	11,652	-	11,652
Asset-backed securities	-	741,661	-	741,661
Subordinate financing investments	66,916	-	1,243,977	1,310,893
Venture capital investments	89,064	-	2,157,924	2,246,988
	155,980	753,313	3,401,901	4,311,194
Liabilities				
Derivative liabilities	-	45	-	45
Long-term notes designated as fair value through profit or loss	-	133,568	-	133,568
	-	133,613	-	133,613
				March 31, 2020
	Fair value measurements using			Total fair value
	Level 1	Level 2	Level 3	
Assets				
Derivative assets	-	12,356	-	12,356
Asset-backed securities	-	777,838	-	777,838
Subordinate financing investments	7,161	-	1,233,427	1,240,588
Venture capital investments	44,314	-	1,676,822	1,721,136
	51,475	790,194	2,910,249	3,751,918
Liabilities				
Derivative liabilities	-	16,125	-	16,125
Long-term notes designated as fair value through profit or loss	-	135,734	-	135,734
	-	151,859	-	151,859



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

	Subordinate financing investments	Venture capital investments	Total
Fair value as at April 1, 2020	1,233,427	1,676,822	2,910,249
Net realized gains (losses) on investments	(5,513)	14,975	9,462
Net change in unrealized appreciation (depreciation) of investments	(32,449)	251,988	219,539
Disbursements for investments	269,999	(61,889)	208,110
Repayments of investments and other	(213,154)	392,782	179,628
Transfers from level 1 to level 3	-	(104,019)	(104,019)
Transfers from level 3 to level 1	(8,333)	(12,735)	(21,068)
Fair value as at December 31, 2020	1,243,977	2,157,924	3,401,901

	Subordinate financing investments	Venture capital investments	Total
Fair value as at April 1, 2019	1,144,759	1,791,118	2,935,877
Net realized gains (losses) on investments	(5,064)	39,449	34,385
Net change in unrealized appreciation (depreciation) of investments	(101,358)	(248,773)	(350,131)
Net unrealized foreign exchange gains (losses) on investments	-	34,718	34,718
Disbursements for investments	534,443	266,412	800,855
Repayments of investments and other	(339,353)	(185,236)	(524,589)
Transfers from level 1 to level 3	-	8,312	8,312
Transfers from level 3 to level 1	-	(29,178)	(29,178)
Fair value as at March 31, 2020	1,233,427	1,676,822	2,910,249



6.

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 expected credit losses	Total net carrying amount
Performing	482,137	5,419,084	24,965,653	30,866,874	(1,207,016)	29,659,858
Impaired	59,969	177,307	974,467	1,211,743	(477,647)	734,096
Loans as at December 31, 2020	542,106	5,596,391	25,940,120	32,078,617	(1,684,663)	30,393,954

	Within 1 year	1 to 5 years	Over 5 years	Total gross carrying amount	Allowance for expected credit losses	Total net carrying amount
Performing	431,261	2,881,530	24,097,877	27,410,668	(784,505)	26,626,163
Impaired	47,155	162,819	851,619	1,061,593	(414,668)	646,925
Loans as at March 31, 2020	478,416	3,044,349	24,949,496	28,472,261	(1,199,173)	27,273,088

The following table shows the reconciliation of the opening and closing balances of the allowance for expected credit losses.

	Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2020	270,249	514,256	414,668	1,199,173
Provision for credit losses				
Transfer to Stage 1 ⁽¹⁾	198,048	(197,741)	(307)	-
Transfer to Stage 2 ⁽¹⁾	(208,017)	224,434	(16,417)	-
Transfer to Stage 3 ⁽¹⁾	(1,507)	(52,297)	53,804	-
Net remeasurement of allowance for expected credit losses ⁽²⁾	19,548	234,291	119,954	373,793
Financial assets that have been fully repaid	(25,236)	(37,559)	(27,139)	(89,934)
New financial assets originated	266,079	64,813	-	330,892
Write-offs	-	-	(80,608)	(80,608)
Recoveries	-	-	15,042	15,042
Foreign exchange and other movements	(27,504)	(34,841)	(1,350)	(63,695)
Balance as at December 31, 2020	491,660	715,356	477,647	1,684,663

	Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2019	106,880	183,627	338,735	629,242
Provision for credit losses				
Transfer to Stage 1 ⁽¹⁾	69,846	(67,566)	(2,280)	-
Transfer to Stage 2 ⁽¹⁾	(73,641)	102,489	(28,848)	-
Transfer to Stage 3 ⁽¹⁾	(2,186)	(42,806)	44,992	-
Net remeasurement of allowance for expected credit losses ⁽²⁾	87,231	315,604	232,432	635,267
Financial assets that have been fully repaid	(12,306)	(22,947)	(36,737)	(71,990)
New financial assets originated	84,076	23,685	-	107,761
Write-offs	-	-	(153,529)	(153,529)
Recoveries	-	40	18,671	18,711
Foreign exchange and other movements	10,349	22,130	1,232	33,711
Balance as at March 31, 2020	270,249	514,256	414,668	1,199,173

⁽¹⁾ Provides the cumulative movement from the previous month's allowance for expected credit losses due to changes in stages prior to remeasurements.

⁽²⁾ Explains the movement in the allowance for expected credit losses attributable to changes in the gross carrying amount and credit risk of existing loans, changes to inputs and assumptions and partial repayments.

Concentrations of total loans outstanding and undisbursed commitments

Concentrations of the total loans outstanding and undisbursed amounts of authorized loans, by province and territory and by industry sector, are set out in the tables below.

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Undisbursed amounts of authorized loans were \$3,226,579 as at December 31, 2020 (\$907,206 at fixed rates; \$2,319,373 at floating rates). The weighted average effective interest rate was 3.9% on loan commitments (5.3% as at December 31, 2019).

Geographic distribution	December 31, 2020		March 31, 2020	
	Outstanding	Commitments	Outstanding	Commitments
Newfoundland and Labrador	881,939	42,619	870,736	66,841
Prince Edward Island	77,889	6,372	78,750	2,098
Nova Scotia	730,217	43,589	676,641	82,782
New Brunswick	525,388	27,880	524,227	38,746
Quebec	10,174,347	1,009,957	8,960,967	943,956
Ontario	8,918,291	896,414	7,784,743	839,924
Manitoba	865,327	102,205	805,175	80,986
Saskatchewan	875,850	61,207	793,821	62,499
Alberta	4,639,630	512,809	4,131,995	483,156
British Columbia	4,203,873	497,485	3,673,584	458,736
Yukon	119,769	1,785	117,235	3,019
Northwest Territories and Nunavut	66,097	24,257	54,387	11,906
Total loans outstanding⁽¹⁾	32,078,617	3,226,579	28,472,261	3,074,649

Industry sector	December 31, 2020		March 31, 2020	
	Outstanding	Commitments	Outstanding	Commitments
Manufacturing	7,027,108	860,721	6,434,657	857,111
Wholesale and retail trade	6,095,193	664,840	5,204,352	511,853
Service industries	4,857,862	463,161	4,156,135	414,829
Tourism	3,731,116	168,258	3,295,761	273,727
Commercial properties	3,281,903	142,654	3,148,960	130,238
Construction	2,819,749	298,779	2,364,589	298,909
Transportation and storage	1,853,218	213,705	1,778,237	170,721
Resources	1,327,500	253,088	1,145,173	230,917
Other	1,084,968	161,373	944,397	186,344
Total loans outstanding⁽¹⁾	32,078,617	3,226,579	28,472,261	3,074,649

⁽¹⁾ Loans commitments included \$2,938,813 in the Financing segment, and \$287,766 in the Credit Availability Program segment as at December 31, 2020 (\$3,074,649, and nil respectively, as at March 31, 2020).



The following table shows the reconciliation of the opening and closing balances of the allowance for expected credit losses on commitments, which is included in other liabilities in the Consolidated Statement of Financial Position.

	Allowance for expected credit losses on commitments			Total
	Stage 1	Stage 2	Stage 3	
Balance as at April 1, 2020	41,778	25,281	-	67,059
Net remeasurement of the allowance for expected credit losses	(15,247)	(1,603)	-	(16,850)
Net increase (decrease) in commitments	35,618	87	-	35,705
Foreign exchange and other movements	5,713	4,166	-	9,879
Balance as at December 31, 2020	67,862	27,931	-	95,793

	Allowance for expected credit losses on commitments			Total
	Stage 1	Stage 2	Stage 3	
Balance as at April 1, 2019	17,984	4,481	-	22,465
Net remeasurement of the allowance for expected credit losses	(2,039)	12,078	-	10,039
Net increase (decrease) in commitments	25,102	8,190	-	33,292
Foreign exchange and other movements	731	532	-	1,263
Balance as at March 31, 2020	41,778	25,281	-	67,059

7.

Asset-backed securities

The following table summarizes asset-backed securities (“ABS”) by classification of financial instruments. No ABS were impaired as at December 31, 2020 or March 31, 2020. No allowances for expected credit losses were recorded for disbursed and undisbursed ABS at fair value through other comprehensive income as at December 31, 2020 or March 31, 2020.

	December 31, 2020	March 31, 2020
Fair value through other comprehensive income		
Principal amount	719,822	762,715
Cumulative fair value appreciation (depreciation)	12,101	5,266
Carrying value	731,923	767,981
Yield	2.35%	2.59%
Fair value through profit or loss		
Principal amount	9,460	9,701
Cumulative fair value appreciation (depreciation)	278	156
Carrying value	9,738	9,857
Yield	7.16%	7.56%
Asset-backed securities	741,661	777,838

Committed amounts of authorized asset-backed securities were \$366,547 as at December 31, 2020 (\$238,489 as at March 31, 2020).



8.

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 December 31, 2020	174,011	956,845	318,829	1,449,685	1,310,893
As at March 31, 2020	165,748	808,846	419,049	1,393,643	1,240,588

Subordinate financing investments have subordinate status in relationship to the other debt issued by a company.

Concentrations of subordinate financing investments and commitments

The concentrations of subordinate financing investments and undisbursed amounts of authorized subordinate financing investments, by geographic and industry distribution, are set out in the tables below.

Undisbursed amounts of authorized investments totalled \$156,232 as at December 31, 2020 (\$110,233 at fixed rates; \$45,999 at floating rates). The weighted average effective interest rate was 7.7% on subordinate financing commitments (9.3% as at December 31, 2019), excluding non-interest return.

Geographic distribution	December 31, 2020			March 31, 2020		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Newfoundland and Labrador	19,908	28,250	6,875	18,402	26,509	6,875
Nova Scotia	11,918	15,747	15,000	10,557	12,720	5,000
New Brunswick	15,820	15,699	-	16,044	16,387	-
Quebec	447,148	454,080	28,007	426,149	462,558	35,050
Ontario	453,986	515,331	66,853	442,600	498,251	66,251
Manitoba	5,039	6,908	-	1,720	3,316	10,500
Saskatchewan	41,978	53,803	2,402	46,224	58,169	600
Alberta	144,445	187,621	21,775	136,548	167,057	25,615
British Columbia	168,738	169,923	15,320	139,509	145,709	26,431
Yukon	168	224	-	325	332	-
Northwest Territories and Nunavut	1,745	2,099	-	2,510	2,635	-
Subordinate financing investments⁽¹⁾	1,310,893	1,449,685	156,232	1,240,588	1,393,643	176,322

Industry sector	December 31, 2020			March 31, 2020		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Manufacturing	422,855	473,832	42,495	367,429	430,194	42,104
Service industries	389,280	404,323	45,527	327,271	349,335	67,951
Wholesale and retail trade	152,036	191,424	11,177	190,756	211,079	10,400
Resources	108,178	128,001	23,300	105,545	133,594	9,000
Information industries	114,458	114,400	17,545	101,800	112,665	19,614
Construction	48,693	51,605	11,900	57,691	63,012	10,000
Transportation and storage	40,848	48,906	2,702	48,431	52,565	3,300
Educational services	12,992	12,918	-	11,457	12,043	11,250
Tourism	4,867	10,069	636	10,419	11,762	2,703
Other	16,686	14,207	950	19,789	17,394	-
Subordinate financing investments⁽¹⁾	1,310,893	1,449,685	156,232	1,240,588	1,393,643	176,322

⁽¹⁾ Subordinate financing commitments included \$1,434 in the Financing segment, \$85,150 in the Growth & Transition Capital segment, \$3,445 in the Venture Capital segment, \$56,953 in the Capital Incentive Programs segment, and \$9,250 in the Credit Availability Program segment as at December 31, 2020 (\$3,400, \$125,641, nil, \$47,281 and nil respectively, as at March 31, 2020).



9.

Venture capital investments

BDC maintains a high-risk portfolio of venture capital investments. 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	December 31, 2020			March 31, 2020		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Direct investments	974,240	829,973	82,528	692,194	633,443	33,812
Indirect investments in funds ⁽¹⁾	1,272,748	950,314	763,865	1,028,942	848,180	811,658
Venture capital investments ⁽²⁾	2,246,988	1,780,287	846,393	1,721,136	1,481,623	845,470

⁽¹⁾ As at December 31, 2020, BDC had invested in 94 funds through its VC segment and 24 funds through its CIP segment (84 and 24, respectively, as at March 31, 2020).

⁽²⁾ Venture Capital commitments included \$460,337 in the Venture Capital segment, \$351,074 in the Capital Incentive Programs segment, and \$34,982 in the Credit Availability Program segment as at December 31, 2020 (\$449,622, \$395,848, and nil respectively, as at March 31, 2020)

Concentrations of total venture capital investments and commitments

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

Industry sector	December 31, 2020			March 31, 2020		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Information technology	514,164	408,262	50,866	376,573	303,365	12,151
Communications	100,625	87,551	14,029	86,829	69,161	1,906
Biotechnology and pharmacology	81,189	68,565	4,336	46,879	57,754	4,415
Electronics	72,882	84,724	4,500	58,792	70,836	796
Medical and health	59,083	43,062	1,250	24,169	55,481	-
Industrial	42,928	40,013	1,000	33,799	26,705	-
Energy	24,736	20,755	4,497	27,137	19,670	482
Other	78,633	77,041	2,050	38,016	30,471	14,062
Total direct investments	974,240	829,973	82,528	692,194	633,443	33,812

10.

Share capital

An unlimited number of common shares, having a par value of \$100 each, is authorized. As at December 31, 2020, there were 115,119,000 common shares outstanding (40,089,000 as at March 31, 2020).

On June 23, 2020, BDC received \$7.503 billion in cash for the issuance of 75,030,000 common shares, which represents a capital injection to support a series of measures BDC launched for Canadian businesses during the COVID-19 crisis including the delivery of the Business Credit Availability Program (BCAP).

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 excluding accumulated other comprehensive income.



Effective September 30, 2020, the Minister of Finance confirmed that the amount of paid-in-capital, together with any contributed surplus and any proceeds that have been prescribed as equity, must not at any time exceed \$20.0 billion per an amendment to the *Business Development Bank of Canada Act, 1995*.

During the three months ended December 31, 2020 and the year ended March 31, 2020, 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.

On May 5, 2020, the Board of Directors approved a new capital management framework to ensure effective capital management in alignment with regulatory guidelines (OSFI/Basel) and with other Canadian Financial Institutions. BDC strives to continuously evolve its capital adequacy techniques and measures to better reflect the Bank's inherent risks while integrating industry best practices. The new capital management framework will incorporate changes in both the available capital definition as well as in the required capital quantification. The new framework was effective April 1, 2020.

Available capital

Modifications arising from the new Capital Management framework primarily relate to the collective allowance addback to capital as prescribed in OSFI's Capital Adequacy Requirements under the Standardized Approach.

Required capital

Modifications arising from the new Capital Management framework primarily relate to the removal of capital reserves (Stress testing and Venture Capital), the alignment to industry standards for solvency rating, adjustment of the operating range definition and the update of economic capital models validated by third parties.



11.

Segmented information

BDC has made some changes to its reporting structure to align with the delivery of its services. BDC's business segments now include Financing, Advisory Services, Growth & Transition Capital (GTC), Venture Capital (VC), and Capital Incentive Programs (CIP) (previously named Venture Capital Incentive Programs (VCIP)). Cleantech Practice is now included in CIP and is no longer considered a separately identifiable reportable segment. Refer to Note 14, *Comparative information*, of the Consolidated Financial Statements for complete details.

Each business line offers different products and services and is managed separately based on BDC's management and internal reporting structure.

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** offers advisory services through a variety of solutions for both smaller and larger companies, supports high-impact firms, provides free online educational content and other services related to business activities.
- **Growth & Transition Capital** provides subordinate financing by way of flexible debt, with or without convertible features, and quasi-equity financing to support the growth and transition projects of SMEs.
- **Venture Capital** includes Venture Capital (VC), Growth Equity (GE) and Intellectual Property investments (IP). Venture capital provides investments to cover every stage of a technology-based company's development cycle, from seed funding to expansion. VC is focused on fast-growing companies with promising positions in their respective marketplaces and strong growth potential. BDC also makes indirect investments via venture capital investment funds. GE provides equity investments to support the growth of high-potential companies across Canada. Through its IP Fund, BDC launched a \$160 million fund that provides more targeted financing to companies rich in intellectual property. It focuses on such sectors as advanced manufacturing, media and telecom, med-tech and digital health and information technology.
- **Capital Incentive Programs (previously Venture Capital Incentive Programs)** includes Venture Capital Action Plan (VCAP), Venture Capital Catalyst Initiative (VCCI) and Cleantech Practice. VCAP is a \$390.0 million federal government initiative 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. It 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 is also a government-sponsored initiative whereby \$450.0 million is made available through BDC over three years to provide 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. Cleantech Practice will deploy \$600.0 million entrusted by the federal government, in debt and equity transactions to help build globally competitive Canadian cleantech firms and a commercially sustainable cleantech industry.
- **Credit Availability Program:** with the support of our sole shareholder, the Government of Canada, we launched a series of measures to help Canadian businesses during the COVID-19 crisis. These measures are combined under CAP to distinguish COVID-19 related measures from our core activities. The initiatives extend eligibility criteria to ensure we are meeting the urgent needs of as many viable businesses as possible. They include the Business Credit

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Availability Program, which is delivered in collaboration with private sector lenders, and measures delivered directly by BDC.

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.

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

	Three months ended December 31, 2020						
	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Capital Incentive Programs	Credit Availability Program
Interest income	412,242	363,631	-	23,653	3	2,052	22,903
Interest expense	21,926	19,809	-	1,406	137	-	574
Net interest income (expense)	390,316	343,822	-	22,247	(134)	2,052	22,329
Net realized gains (losses) on investments	32,949	(250)	-	(1,709)	30,957	3,101	850
Revenue from Advisory Services	5,397	-	5,397	-	-	-	-
Fee and other income	14,134	6,753	6	3,720	6	342	3,307
Net revenue	442,796	350,325	5,403	24,258	30,829	5,495	26,486
Provision for expected credit losses	(34,598)	(2,914)	-	-	-	-	(31,684)
Net change in unrealized appreciation (depreciation) of investments	167,284	260	-	12,353	114,299	40,717	(345)
Net foreign exchange gains (losses)	(35,222)	(1,556)	-	(1,196)	(29,921)	(915)	(1,634)
Net gains (losses) on other financial instruments	362	362	-	-	-	-	-
Income (loss) before operating and administrative expenses	540,622	346,477	5,403	35,415	115,207	45,297	(7,177)
Salaries and benefits	108,441	58,388	11,498	8,084	6,384	901	23,186
Premises and equipment	10,713	6,659	877	447	389	85	2,256
Other expenses	43,405	31,391	3,614	1,086	2,750	406	4,158
Operating and administrative expenses	162,559	96,438	15,989	9,617	9,523	1,392	29,600
Net income (loss)	378,063	250,039	(10,586)	25,798	105,684	43,905	(36,777)
Net income (loss) attributable to:							
BDC's shareholder	379,668	250,039	(10,586)	25,796	107,291	43,905	(36,777)
Non-controlling interests	(1,605)	-	-	2	(1,607)	-	-
Net income (loss)	378,063	250,039	(10,586)	25,798	105,684	43,905	(36,777)

	Three months ended December 31, 2019						
	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Capital Incentive Programs	Credit Availability Program
Interest income	450,190	422,519	-	26,187	-	1,484	-
Interest expense	95,604	92,813	-	2,727	64	-	-
Net interest income (expense)	354,586	329,706	-	23,460	(64)	1,484	-
Net realized gains (losses) on investments	594	-	-	(1,096)	1,690	-	-
Revenue from Advisory Services	7,661	-	7,661	-	-	-	-
Fee and other income	16,188	5,732	-	7,312	1,025	2,119	-
Net revenue	379,029	335,438	7,661	29,676	2,651	3,603	-
Provision for expected credit losses	(70,143)	(70,143)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	59,775	(169)	-	(7,808)	71,694	(3,942)	-
Net foreign exchange gains (losses)	(14,959)	(777)	-	(423)	(13,499)	(260)	-
Net gains (losses) on other financial instruments	33	33	-	-	-	-	-
Income (loss) before operating and administrative expenses	353,735	264,382	7,661	21,445	60,846	(599)	-
Salaries and benefits	113,214	81,244	12,420	8,610	9,988	952	-
Premises and equipment	10,462	8,293	1,055	544	462	108	-
Other expenses	47,156	38,137	4,997	1,301	2,507	214	-
Operating and administrative expenses	170,832	127,674	18,472	10,455	12,957	1,274	-
Net income (loss)	182,903	136,708	(10,811)	10,990	47,889	(1,873)	-
Net income (loss) attributable to:							
BDC's shareholder	190,601	136,708	(10,811)	11,529	55,048	(1,873)	-
Non-controlling interests	(7,698)	-	-	(539)	(7,159)	-	-
Net income (loss)	182,903	136,708	(10,811)	10,990	47,889	(1,873)	-

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	Nine months ended December 31, 2020						
	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Capital Incentive Programs	Credit Availability Program
Interest income	1,199,587	1,082,173	-	67,355	3	5,623	44,433
Interest expense	71,407	65,306	-	4,374	324	-	1,403
Net interest income (expense)	1,128,180	1,016,867	-	62,981	(321)	5,623	43,030
Net realized gains (losses) on investments	34,914	(250)	-	(5,263)	36,476	3,101	850
Revenue from Advisory Services	13,681	-	13,681	-	-	-	-
Fee and other income	43,983	18,112	13	12,324	4,325	1,071	8,138
Net revenue	1,220,758	1,034,729	13,694	70,042	40,480	9,795	52,018
Provision for expected credit losses	(600,695)	(383,218)	-	-	-	-	(217,477)
Net change in unrealized appreciation (depreciation) of investments	307,549	(4,228)	-	(26,188)	269,618	68,710	(363)
Net foreign exchange gains (losses)	(70,759)	(2,317)	-	(2,369)	(62,376)	(1,833)	(1,864)
Net gains (losses) on other financial instruments	855	855	-	-	-	-	-
Income (loss) before operating and administrative expenses	857,708	645,821	13,694	41,485	247,722	76,672	(167,686)
Salaries and benefits	328,818	160,012	31,219	21,062	18,020	2,572	95,933
Premises and equipment	31,364	17,065	2,327	1,225	1,416	298	9,033
Other expenses	126,024	88,977	9,739	3,288	7,302	860	15,858
Operating and administrative expenses	486,206	266,054	43,285	25,575	26,738	3,730	120,824
Net income (loss)	371,502	379,767	(29,591)	15,910	220,984	72,942	(288,510)
Net income (loss) attributable to:							
BDC's shareholder	370,213	379,767	(29,591)	16,611	218,994	72,942	(288,510)
Non-controlling interests	1,289	-	-	(701)	1,990	-	-
Net income (loss)	371,502	379,767	(29,591)	15,910	220,984	72,942	(288,510)
Business segment portfolio as at December 31, 2020							
Loans, net of allowance for expected credit losses	30,393,954	27,582,641	-	-	-	-	2,811,313
Asset-backed securities	741,661	741,661	-	-	-	-	-
Subordinate financing investments	1,310,893	17,316	-	875,416	167,073	235,792	15,296
Venture capital investments	2,246,988	-	-	-	1,613,337	510,798	122,853
Total portfolio	34,693,496	28,341,618	-	875,416	1,780,410	746,590	2,949,462

	Nine months ended December 31, 2019						
	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Capital Incentive Programs	Credit Availability Program
Interest income	1,326,476	1,245,671	-	77,105	-	3,700	-
Interest expense	280,533	272,383	-	7,983	167	-	-
Net interest income (expense)	1,045,943	973,288	-	69,122	(167)	3,700	-
Net realized gains (losses) on investments	220,626	(1)	-	1,822	218,805	-	-
Revenue from Advisory Services	21,562	-	21,562	-	-	-	-
Fee and other income	54,199	17,212	-	22,417	10,262	4,308	-
Net revenue	1,342,330	990,499	21,562	93,361	228,900	8,008	-
Provision for expected credit losses	(199,353)	(199,353)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	72,493	562	-	(25,848)	76,651	21,128	-
Net foreign exchange gains (losses)	(23,605)	(3,207)	-	(529)	(19,726)	(143)	-
Net gains (losses) on other financial instruments	181	181	-	-	-	-	-
Income before operating and administrative expenses	1,192,046	788,682	21,562	66,984	285,825	28,993	-
Salaries and benefits	332,081	242,489	37,802	28,166	20,714	2,910	-
Premises and equipment	32,451	25,799	3,141	1,630	1,557	324	-
Other expenses	126,895	100,314	14,001	4,085	7,534	961	-
Operating and administrative expenses	491,427	368,602	54,944	33,881	29,805	4,195	-
Net income (loss)	700,619	420,080	(33,382)	33,103	256,020	24,798	-
Net income (loss) attributable to:							
BDC's shareholder	702,010	420,080	(33,382)	32,006	258,508	24,798	-
Non-controlling interests	(1,391)	-	-	1,097	(2,488)	-	-
Net income (loss)	700,619	420,080	(33,382)	33,103	256,020	24,798	-
Business segment portfolio as at December 31, 2019							
Loans, net of allowance for expected credit losses	27,238,961	27,238,961	-	-	-	-	-
Asset-backed securities	759,473	759,473	-	-	-	-	-
Subordinate financing investments	1,318,547	11,165	-	1,061,223	125,094	121,065	-
Venture capital investments	2,168,844	-	-	-	1,656,090	512,754	-
Total portfolio	31,485,825	28,009,599	-	1,061,223	1,781,184	633,819	-



12.

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 and actual exposure under the guarantees totalled \$8.6 million as at December 31, 2020 (\$11.1 million as at March 31, 2020) and the existing terms expire within 106 months (within 115 months as at March 31, 2020).

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 fees were 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 December 31, 2020 and March 31, 2020, there were no liabilities recognized in BDC’s Consolidated Statement of Financial Position related to these guarantees.

13.

Related party transactions

As at December 31, 2020, BDC had \$13,554.4 million outstanding in short-term notes and \$4,738.7 million in long-term notes with Her Majesty the Queen in Right of Canada acting through the Minister of Finance (\$19,356.3 million in short-term notes and \$4,071.3 million in long-term notes as at March 31, 2020).

BDC recorded \$21.4 million in interest expense, related to the borrowings from the Minister of Finance, for the quarter and \$72.2 million for the nine months ended December 31, 2020. Last year’s comparative figures for the same period were \$96.2 million and \$284.0 million, respectively.

In addition, \$5,305.0 million in borrowings with the Minister of Finance were repurchased in the first nine months of fiscal 2021. This resulted in no gain or loss in the first nine months of fiscal 2021 (\$310.0 million in borrowings were repurchased during the same period last year).

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.

14.

Comparative information

BDC made some changes to its reporting structure to align with the delivery of its services, which resulted in the following:

- The portfolios and related results of Growth Equity and Intellectual Property, previously reported under the Growth and Transition Capital segment, were transferred to the Venture Capital segment; and
- The portfolios and related results of Cleantech Practice were transferred to the Capital Incentive Programs segment, and the Cleantech Practice segment was eliminated; and



- The Venture Capital Incentive Programs segment was renamed as the Capital Incentive Programs segment

These changes only impacted the individual results and investment portfolios of the Growth and Transition Capital, Venture Capital, Capital Incentive Programs and Cleantech Practice segments as presented in Note 11, *Segmented Information*. There was no impact on Consolidated Statement of Net Income, or on the Consolidated Statement of Financial Position.

BDC prepared its Consolidated Financial Statements for the three-month and nine-month periods ended December 31, 2020, including the comparative information as at December 31, 2019, in accordance with the new internal reporting structure.



The following table summarizes the impact of the above-mentioned changes on the reportable segments as at December 31, 2019.

Business Lines	Three months ended December 31, 2019 (Previous structure)	Reclassification impact	Three months ended December 31, 2019 (New structure)
Growth and Transition Capital			
Interest income	26,187	-	26,187
Interest expense	2,791	(64)	2,727
Net interest income	23,396	64	23,460
Net realized gains (losses) on investments	(1,096)	-	(1,096)
Fee and other income	7,316	(4)	7,312
Net revenue (loss)	29,616	60	29,676
Net change in unrealized appreciation (depreciation) of investments	(7,808)	-	(7,808)
Net foreign exchange gains (losses)	(423)	-	(423)
Income (loss) before operating and administrative expenses	21,385	60	21,445
Operating and administrative expenses	11,234	(779)	10,455
Net income (loss)	10,151	839	10,990
Venture Capital			
Interest income	-	-	-
Interest expense	-	64	64
Net interest income	-	(64)	(64)
Net realized gains (losses) on investments	1,690	-	1,690
Fee and other income	1,021	4	1,025
Net revenue (loss)	2,711	(60)	2,651
Net change in unrealized appreciation (depreciation) of investments	71,694	-	71,694
Net foreign exchange gains (losses)	(13,499)	-	(13,499)
Income (loss) before operating and administrative expenses	60,906	(60)	60,846
Operating and administrative expenses	12,178	779	12,957
Net income (loss)	48,728	(839)	47,889
Cleantech Practice			
Interest income	1,484	(1,484)	-
Interest expense	-	-	-
Net interest income	1,484	(1,484)	-
Net realized gains (losses) on investments	-	-	-
Fee and other income	1,361	(1,361)	-
Net revenue (loss)	2,845	(2,845)	-
Net change in unrealized appreciation (depreciation) of investments	(4,584)	4,584	-
Net foreign exchange gains (losses)	(37)	37	-
Income (loss) before operating and administrative expenses	(1,776)	1,776	-
Operating and administrative expenses	856	(856)	-
Net income (loss)	(2,632)	2,632	-
Capital Incentive Programs			
Interest income	-	1,484	1,484
Interest expense	-	-	-
Net interest income	-	1,484	1,484
Net realized gains (losses) on investments	-	-	-
Fee and other income	758	1,361	2,119
Net revenue (loss)	758	2,845	3,603
Net change in unrealized appreciation (depreciation) of investments	642	(4,584)	(3,942)
Net foreign exchange gains (losses)	(223)	(37)	(260)
Income (loss) before operating and administrative expenses	1,177	(1,776)	(599)
Operating and administrative expenses	418	856	1,274
Net income (loss)	759	(2,632)	(1,873)



Business Lines	Nine months ended December 31, 2019 (Previous structure)	Reclassification impact	Nine months ended December 31, 2019 (New structure)
Growth and Transition Capital			
Interest income	77,105	-	77,105
Interest expense	8,150	(167)	7,983
Net interest income	68,955	167	69,122
Net realized gains (losses) on investments	2,794	(972)	1,822
Fee and other income	23,297	(880)	22,417
Net revenue (loss)	95,046	(1,685)	93,361
Net change in unrealized appreciation (depreciation) of investments	(13,768)	(12,080)	(25,848)
Net foreign exchange gains (losses)	(529)	-	(529)
Income (loss) before operating and administrative expenses	80,749	(13,765)	66,984
Operating and administrative expenses	36,022	(2,141)	33,881
Net income (loss)	44,727	(11,624)	33,103
Business segment portfolio	1,186,317	(125,094)	1,061,223
Venture Capital			
Interest income	-	-	-
Interest expense	-	167	167
Net interest income	-	(167)	(167)
Net realized gains (losses) on investments	217,833	972	218,805
Fee and other income	9,382	880	10,262
Net revenue (loss)	227,215	1,685	228,900
Net change in unrealized appreciation (depreciation) of investments	64,571	12,080	76,651
Net foreign exchange gains (losses)	(19,726)	-	(19,726)
Income (loss) before operating and administrative expenses	272,060	13,765	285,825
Operating and administrative expenses	27,664	2,141	29,805
Net income (loss)	244,396	11,624	256,020
Business segment portfolio	1,656,090	125,094	1,781,184
Cleantech Practice			
Interest income	3,700	(3,700)	-
Interest expense	-	-	-
Net interest income	3,700	(3,700)	-
Net realized gains (losses) on investments	-	-	-
Fee and other income	2,815	(2,815)	-
Net revenue (loss)	6,515	(6,515)	-
Net change in unrealized appreciation (depreciation) of investments	15	(15)	-
Net foreign exchange gains (losses)	128	(128)	-
Income (loss) before operating and administrative expenses	6,658	(6,658)	-
Operating and administrative expenses	2,627	(2,627)	-
Net income (loss)	4,031	(4,031)	-
Business segment portfolio	125,309	(125,309)	-
Capital Incentive Programs			
Interest income	-	3,700	3,700
Interest expense	-	-	-
Net interest income	-	3,700	3,700
Net realized gains (losses) on investments	-	-	-
Fee and other income	1,493	2,815	4,308
Net revenue (loss)	1,493	6,515	8,008
Net change in unrealized appreciation (depreciation) of investments	21,113	15	21,128
Net foreign exchange gains (losses)	(271)	128	(143)
Income (loss) before operating and administrative expenses	22,335	6,658	28,993
Operating and administrative expenses	1,568	2,627	4,195
Net income (loss)	20,767	4,031	24,798
Business segment portfolio	508,510	125,309	633,819



15.

Uncertainties related to COVID-19

The outbreak of a novel and highly contagious form of Coronavirus (“COVID-19”), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous government implemented lockdowns and other social distancing measures, adversely impacting global commercial activity and contributing to significant ongoing volatility and declines in the global financial markets. The Consolidated Financial Statements of BDC prepared as of, and for the quarter ended December 31, 2020 reflect the impacts resulting from COVID-19 to the extent known at the reporting date.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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