



2019

Financial Report

Third Quarter

December 31, 2018



Executive Summary

Canadian economic outlook

Canada's economy is forecast to continue to grow in 2019, but at a slower pace than in 2018. The slower growth is primarily due to higher interest rates that will limit consumer spending and the growth of the housing market and related construction activities. At the same time, lower oil and other commodity prices will have an impact on business investment, especially in Western Canada. A compensating factor will be stronger exports, but Canadian GDP growth is expected to be lower than the 2% achieved in 2018.

The global economy is expected to stay healthy in 2019 and grow at a solid pace. Growth in most major developed economies should increase modestly. The U.S. will lead the way with expected solid growth in 2019, creating jobs and pushing unemployment further below what US government considers to be full employment. This performance by Canada's No. 1 trading partner, combined with a lower Canadian dollar, and the recently signed CUSMA will support exports in 2019.

Small business confidence dropped in late 2018, according to the Canadian Federation of Independent Business (CFIB). The barometer index lost 7.6 points between November and December and has reached 53.6, a low not seen since March 2016. Confidence among Alberta SMEs deteriorated following a drop in oil prices in November and December.

According to the Bank of Canada's Senior Loan Officers Survey, there was a general easing of business lending conditions in late 2018. This is due to competition from financial institutions for loans to large corporations, while conditions for small and commercial companies have remained the same. Although interest rates continue to rise slightly, credit conditions remain accommodative.

Financial highlights

The third quarter of fiscal 2019, ended on December 31, 2018, reflects continued growth in the volume of activity for Financing and a strong level of investments in Venture Capital.

Clients of Financing⁽¹⁾ accepted a total of \$2.0 billion in loans for the third quarter and \$5.6 billion for the nine-month period, compared to \$1.7 billion and \$5.3 billion for the same periods last year. Financing's loans portfolio⁽²⁾ stood at \$26.1 billion as at December 31, 2018, a 6.8% increase since March 31, 2018.

Net contracts signed for Advisory Services were stable in the third quarter at \$7.1 million compared to \$7.2 million for the same period last year. Strong results were achieved for the nine-month period with net contracts signed amounting to \$21.4 million, representing a 12.2% increase compared to the the nine-month period last fiscal. Moreover, revenues also increased, totalling \$6.7 million in the third quarter and \$18.7 million for the nine-month period, increasing by 37.1% and 32.1%, respectively, compared to the same periods last fiscal.

Following a high level of activity last year, Growth & Transition Capital reported a lower volume of acceptances for the first nine-months of this fiscal. Clients accepted \$70.9 million in financing during the third quarter and \$243.6 million for the nine-month period, compared to \$133.6 million and \$357.0 million for the same periods last year. The lower volume of acceptances is a result of high levels of market liquidity.

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

⁽²⁾ Before allowance for credit losses



Venture Capital authorized investments totalling \$136.0 million in the third quarter and \$215.9 million for the first nine months of fiscal 2019, compared to \$11.2 million and \$91.4 million for the same periods last fiscal. The increase in authorizations was mainly driven by higher indirect investments in VC funds in the third quarter of fiscal 2019.

Authorizations for Venture Capital Incentive Programs increased in the third quarter to \$278.9 million for the Venture Capital Catalyst Initiative, bringing the total for the nine month period to \$281.7 million (nil for the same periods last year as this initiative started in June 2018).

Clients of the Cleantech Practice accepted a total of \$21.0 million in subordinate financing investments during the third quarter of fiscal 2019 and \$27.0 million for the nine-month period. In addition, Cleantech Practice authorized equity investments totalling \$32.2 million in the third quarter.

The consolidated net income for the third quarter and nine-month period reached \$199.3 million and \$633.9 million respectively, compared to \$157.3 million and \$594.2 million achieved for the same periods last fiscal. The higher results in the third quarter compared to last year are mainly attributable to increased net interest income in Financing due to portfolio growth, and foreign exchange gains in Venture Capital.

As at December 31, 2018, BDC expects its consolidated net income for fiscal 2019 to exceed its Corporate Plan annual net income target of \$554 million.

BDC quarterly achievements

- New \$500 million Energy Diversification commercial financing envelope made available over three years to help oil and gas small business enterprises weather the current market uncertainty.
- First Web video series launched showcasing inspiring, resilient entrepreneurs and the challenges they overcame to succeed.
- Three additional investments announced by BDC Capital's Women in Technology Venture Fund, one of the world's largest venture funds investing only in women-led technology companies, bringing the total investments of this fund to 24.
- More than 4,000 small and mid-sized business owners surveyed for BDC's 2019 investment intentions study during the quarter. Released in January, it revealed that more entrepreneurs plan to invest in intangible assets such as software and intellectual property. High-growth firms are focused on buying new technology, with 59% planning such investments compared to 43% of all businesses.



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

BDC is the only bank devoted exclusively to Canadian entrepreneurs. It promotes entrepreneurship with a focus on small and medium-sized businesses. With more than 120 business centres from coast to coast, BDC provides businesses with financing, investment and advisory services.

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



Table of Contents

Management Discussion and Analysis	6
Context of the Quarterly Financial Report.....	6
Risk Management	6
Analysis of Financial Results	7
Consolidated Financial Statements	17

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

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



Management Discussion and Analysis

Context of the Quarterly Financial Report

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

Risk Management

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

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

No significant changes were made to BDC's IRM practices and no new risks were identified during the quarter ended December 31, 2018.



Analysis of Financial Results

Analysis of financial results is provided to enable a reader to assess BDC's results of operations and financial condition for the three-month and nine-month periods ended December 31, 2018, compared to the corresponding periods of the prior fiscal year. This analysis also includes comments about significant variances from BDC's fiscal 2019–23 Corporate Plan, when applicable.

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

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

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

Consolidated net income

	Three months ended December 31		Nine months ended December 31	
	F2019	F2018	F2019	F2018
(\$ in millions)				
Financing	166.8	154.9	508.7	462.4
Advisory Services	(12.2)	(12.1)	(36.3)	(37.4)
Growth & Transition Capital	10.4	1.8	53.1	50.3
Venture Capital	32.0	11.9	70.6	107.8
Venture Capital Incentive Programs	2.9	0.8	39.5	11.1
Cleantech Practice	(0.6)	(0.0)	(1.7)	(0.0)
Net income	199.3	157.3	633.9	594.2
Net income attributable to:				
BDC's shareholder	196.9	156.1	630.5	554.9
Non-controlling interests	2.4	1.2	3.4	39.3
Net income	199.3	157.3	633.9	594.2

Three and nine months ended December 31

For the quarter ended December 31, 2018, BDC's consolidated net income was \$199.3 million, comprising \$196.9 million attributable to BDC's shareholder and a net income of \$2.4 million attributable to non-controlling interests. In comparison, BDC reported \$157.3 million in consolidated net income for the same period last year, of which net income of \$1.2 million was attributable to non-controlling interests.

BDC recorded strong consolidated net income of \$633.9 million for the nine months ended December 31, 2018, higher than the \$594.2 million recorded for the same period last year.



The increase in the third quarter compared to last year was mostly attributable to higher net interest income in Financing, net realized gains on subordinate financing investments and foreign exchange gains in Venture Capital. For the nine-month period, the lower net change in unrealized appreciation of investments from Venture Capital was offset by better Financing results due to portfolio growth and higher net change in unrealized appreciation of Venture Capital Incentive Programs investments.

Consolidated comprehensive income

(\$ in millions)	Three months ended December 31		Nine months ended December 31	
	F2019	F2018	F2019	F2018
Net income	199.3	157.3	633.9	594.2
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on FVOCI assets	3.0	-	2.7	(3.4)
Net change in unrealized gains (losses) on cash flow hedges	(0.3)	0.3	1.6	-
Total items that may be reclassified subsequently to net income	2.7	0.3	4.3	(3.4)
Items that will not be reclassified to net income				
Remeasurements of net defined benefit asset or liability	(121.1)	(26.9)	(11.4)	(10.9)
Other comprehensive income (loss)	(118.4)	(26.6)	(7.1)	(14.3)
Total comprehensive income	80.9	130.7	626.8	579.9
Total comprehensive income attributable to:				
BDC's shareholder	78.5	129.5	623.4	540.6
Non-controlling interests	2.4	1.2	3.4	39.3
Total comprehensive income	80.9	130.7	626.8	579.9

Three and nine months ended December 31

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

BDC recorded other comprehensive losses of \$118.4 million and \$7.1 million, respectively, for the third quarter and the nine-month period ended December 31, 2018, compared to other comprehensive losses of \$26.6 million and \$14.3 million for the same periods last year. The decrease in OCI for the third quarter was mainly attributable to a remeasurement loss of \$121.1 million on the net defined benefit asset or liability. This loss was due to lower discount rates used to value the net defined benefit liability and lower returns on pension plan assets than forecasted.



Financing results

	Three months ended December 31		Nine months ended December 31	
	F2019	F2018	F2019	F2018
(\$ in millions)				
Net interest income	312.5	289.8	921.2	842.2
Fee and other income	5.3	4.8	15.8	14.0
Provision for credit losses	(44.4)	(38.4)	(115.7)	(97.9)
Net gains (losses) on investments	1.1	0.2	1.1	0.5
Net foreign exchange gains (losses)	(0.1)	(0.1)	(4.9)	(2.6)
Net gains (losses) on other financial instruments	-	0.5	0.5	1.1
Income before operating and administrative expenses	274.4	256.8	818.0	757.3
Operating and administrative expenses	107.6	101.9	309.3	294.9
Net income from Financing	166.8	154.9	508.7	462.4

	Three months ended December 31		Nine months ended December 31	
	F2019	F2018	F2019	F2018
As % of average portfolio				
Net interest income	4.6	4.7	4.7	4.7
Fee and other income	0.1	0.1	0.1	0.1
Provision for credit losses	(0.7)	(0.6)	(0.6)	(0.5)
Net gains (losses) on investments	-	-	-	-
Net gains (losses) on other financial instruments	-	-	-	-
Net foreign exchange gains (losses)	-	-	-	-
Income before operating and administrative expenses	4.0	4.2	4.2	4.3
Operating and administrative expenses	1.6	1.7	1.6	1.6
Net income from Financing	2.4	2.5	2.6	2.7



Three and nine months ended December 31

Net income from Financing was \$166.8 million for the third quarter of fiscal 2019 and \$508.7 million for the nine-month period ended December 31, 2018, compared to \$154.9 million and \$462.4 million for the same periods last year. The increase in profitability in the third quarter and first nine months of fiscal 2019 was mainly due to higher net interest income, primarily as a result of strong portfolio growth. As a percentage of average portfolio, net interest and fee income amounted to 4.8% for the first nine months of fiscal 2019, equivalent to the same period last year.

This increase was offset by a higher provision for credit losses due to portfolio growth and as a result of the new IFRS 9 impairment model which was adopted in the first quarter of fiscal 2019. The increase of \$17.8 million for the nine-month period ended December 31, 2018 consists of a \$7.2 million provision on productive loans, a \$1.1 million provision on undisbursed commitments, and a \$9.5 million provision on impaired loans.

Operating and administrative expenses for the quarter and nine months ended December 31, 2018 were slightly higher than those in the corresponding periods last year. However, operating and administrative expenses as a percentage of average portfolio remained unchanged compared to last year at 1.6%.

Advisory Services results

(\$ in millions)	Three months ended December 31		Nine months ended December 31	
	F2019	F2018	F2019	F2018
Revenue	6.7	4.9	18.7	14.2
Delivery expenses ⁽¹⁾	4.4	3.4	12.5	9.9
Gross operating margin	2.3	1.5	6.2	4.3
Operating and administrative expenses	14.5	13.6	42.5	41.7
Net loss from Advisory Services	(12.2)	(12.1)	(36.3)	(37.4)

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

Three and nine months ended December 31

The offering under Advisory Services is considered an investment in entrepreneurs. As such, a net loss of \$12.2 million was recorded for the third quarter of fiscal 2019, compared to a \$12.1 million net loss recorded for the same quarter last year. Cumulative net loss for the nine-month period ended December 31, 2018, was \$36.3 million, compared to \$37.4 million for the same period last year.

Advisory Services recorded solid revenue of \$6.7 million in the third quarter of fiscal 2019, \$1.8 million higher than in fiscal 2018. Revenue amounted to \$18.7 million for the first nine months of fiscal 2019, 31.7% higher than the \$14.2 million recorded last year. Gross operating margin, at \$6.2 million for the nine months ended December 31, 2018, was higher than the \$4.3 million recorded for the same period last year, driven mainly by higher revenues.

Operating and administrative expenses of \$14.5 million and \$42.5 million for the three-month and nine-month periods ended December 31, 2018, were in line with those recorded for the same periods of fiscal 2018.



Growth & Transition Capital results

	Three months ended December 31		Nine months ended December 31	
(\$ in millions)	F2019	F2018	F2019	F2018
Net revenue on investments	32.3	25.8	104.9	78.8
Net change in unrealized appreciation (depreciation) of investments	(11.6)	(14.2)	(19.5)	1.0
Net foreign exchange gains (losses)	0.9	0.0	0.9	(0.4)
Income before operating and administrative expenses	21.6	11.6	86.3	79.4
Operating and administrative expenses	11.2	9.8	33.2	29.1
Net income from Growth & Transition Capital	10.4	1.8	53.1	50.3
Net income attributable to:				
BDC's shareholder	11.9	1.5	53.1	41.7
Non-controlling interests	(1.5)	0.3	-	8.6
Net income from Growth & Transition Capital	10.4	1.8	53.1	50.3

	Three months ended December 31		Nine months ended December 31	
As % of average portfolio	F2019	F2018	F2019	F2018
Net revenue on investments	11.8	10.3	13.0	11.1
Net change in unrealized appreciation (depreciation) of investments	(4.2)	(5.7)	(2.4)	0.1
Net foreign exchange gains (losses)	0.3	-	0.1	(0.1)
Income before operating and administrative expenses	7.9	4.6	10.7	11.1
Operating and administrative expenses	4.1	3.9	4.2	4.1
Net income from Growth & Transition Capital	3.8	0.7	6.5	7.0
Net income attributable to:				
BDC's shareholder	4.3	0.6	6.5	5.7
Non-controlling interests	(0.5)	0.1	-	1.2
Net income from Growth & Transition Capital	3.8	0.7	6.5	6.9



Three and nine months ended December 31

Net income totalled \$10.4 million for the third quarter of fiscal 2019, compared to \$1.8 million recorded for the same period last year. For the nine months ended December 31, 2018, Growth & Transition Capital recorded net income of \$53.1 million, compared to \$50.3 million for the same period of fiscal 2018. Results for the quarter and the nine-month period were favourably affected by higher net revenue on investments, mainly driven by an increase in net realized gains from the sale of equity investments.

Growth & Transition Capital recorded a net change in unrealized depreciation of \$11.6 million in the third quarter and a net change in unrealized depreciation of \$19.5 million for the first nine months of fiscal 2019, compared to a net change in unrealized depreciation of \$14.2 million and a net change in unrealized appreciation of \$1.0 million, respectively, during the same periods last year, as detailed below. During the first nine months of fiscal 2019, the \$19.5 million net change in unrealized depreciation is mainly explained by the reversal of net fair value appreciation due to realized income which offset the increase in net revenue in investments of \$26.1 million.

(\$ in millions)	Three months ended December 31		Nine months ended December 31	
	F2019	F2018	F2019	F2018
Net fair value appreciation (depreciation)	(13.6)	(16.5)	(11.0)	(5.6)
Reversal of net fair value depreciation (appreciation) due to realized income and write-offs	2.0	2.3	(8.5)	6.6
Net change in unrealized appreciation (depreciation) of investments	(11.6)	(14.2)	(19.5)	1.0

Operating and administrative expenses amounted to \$33.2 million for the nine-month period ended December 31, 2018, higher than the \$29.1 million recorded last year. The increase was mainly due to higher staff levels required to fully support growth. However, as a percentage of average portfolio, operating and administrative expenses remained at the same level as last year, as BDC continued to focus on efficiency.



Venture Capital results

(\$ in millions)	Three months ended December 31		Nine months ended December 31	
	F2019	F2018	F2019	F2018
Net revenue (loss) on investments	5.3	9.7	16.8	(22.0)
Net change in unrealized appreciation (depreciation) of investments	(3.0)	3.1	35.6	176.5
Net foreign exchange gains (losses)	36.5	4.9	38.4	(29.0)
Income before operating and administrative expenses	38.8	17.7	90.8	125.5
Operating and administrative expenses	6.8	5.8	20.2	17.7
Net income (loss) from Venture Capital	32.0	11.9	70.6	107.8
Net income attributable to:				
BDC's shareholder	28.1	11.0	67.2	77.1
Non-controlling interests	3.9	0.9	3.4	30.7
Net income (loss) from Venture Capital	32.0	11.9	70.6	107.8

Three and nine months ended December 31

During the third quarter of fiscal 2019, Venture Capital recorded net income of \$32.0 million, compared to net income of \$11.9 million for the same period last year. For the nine months ended December 31, 2018, net income was \$70.6 million, compared to \$107.8 million recorded for the same period last year. Results for the third quarter were positively impacted by net foreign exchange gains. For the nine-month period of fiscal 2019, the positive impact of foreign exchange gains was offset by lower net fair value appreciation compared to fiscal 2018.

Venture Capital recorded a net change in unrealized depreciation of investments of \$3.0 million for the third quarter and a net change in unrealized appreciation of investments of \$35.6 million for the first nine months of fiscal 2019, compared to a net change in unrealized appreciation of \$3.1 million and \$176.5 million, respectively, for the same periods last year, as detailed below.

(\$ in millions)	Three months ended December 31		Nine months ended December 31	
	F2019	F2018	F2019	F2018
Net fair value appreciation (depreciation)	(3.9)	0.4	32.1	124.5
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	0.9	2.7	3.5	52.0
Net change in unrealized appreciation (depreciation) of investments	(3.0)	3.1	35.6	176.5

Net foreign exchange gains on investments of \$36.5 million in the third quarter of fiscal 2019 were due to foreign exchange fluctuations in the U.S. dollar and were higher than last year, given the stronger U.S. dollar.



On a year-to-date basis, operating and administrative expenses were \$20.2 million, \$2.5 million higher than those recorded for the same period of fiscal 2018 due to the costs associated with the co-creation of two private funds from the previously Captive IT and Healthcare Funds.

Venture Capital Incentive Programs results

(\$ in millions)	Three months ended December 31		Nine months ended December 31	
	F2019	F2018	F2019	F2018
Net revenue (loss) on investments	0.1	-	0.2	0.1
Net change in unrealized appreciation (depreciation) of investments	3.8	1.0	41.0	12.0
Net foreign exchange gains (losses)	0.3	-	0.4	(0.2)
Income (loss) before operating and administrative expenses	4.2	1.0	41.6	11.9
Operating and administrative expenses	1.3	0.2	2.1	0.8
Net income (loss) from Venture Capital Incentive Programs	2.9	0.8	39.5	11.1

Three and nine months ended December 31

During the third quarter of fiscal 2019, Venture Capital Incentive Programs (VCIP) recorded net income of \$2.9 million, compared to a net income of \$0.8 million for the same period last year. For the nine-month period ended December 31, 2018, VCIP recorded net income of \$39.5 million, compared to net income of \$11.1 million for the same period last year.

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

Operating and administrative expenses of \$1.3 million and \$2.1 million for the three-month and nine-month periods ended December 31, 2018 were slightly higher than those recorded in the same period of fiscal 2018, mainly due to expenses related to the new Venture Capital Catalyst Initiative.



Cleantech Practice results

(\$ in millions)	Three months ended December 31		Nine months ended December 31	
	F2019	F2018	F2019	F2018
Net revenue on investments	0.6	(0.0)	1.2	(0.0)
Net change in unrealized appreciation (depreciation) of investments	(0.3)	-	(0.3)	-
Income before operating and administrative expenses	0.3	(0.0)	0.9	(0.0)
Operating and administrative expenses	0.9	-	2.6	-
Net loss from Cleantech Practice	(0.6)	(0.0)	(1.7)	(0.0)

Three and nine months ended December 31

Cleantech Practice reported net losses of \$0.6 million and \$1.7 million, respectively, for the third quarter and the nine-month period, as BDC continued to scale up this new business line.

The Cleantech Practice portfolio as at December 31, 2018 stood at \$52.6 million, comprising \$30.7 million in subordinate financing investments and \$22.5 million in equity investments.

Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows

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

As at December 31, 2018, total BDC assets amounted to \$30.0 billion, an increase of \$2.2 billion from March 31, 2018, largely due to the \$1.7 billion increase in our gross loans portfolio and the \$131.7 million reversal of the allowance for credit losses following the adoption of IFRS 9.

At \$25.5 billion, the loans portfolio represented BDC's largest asset (\$26.1 billion in gross portfolio less a \$0.6 billion allowance for credit losses). The gross loans portfolio grew by 6.8% in the nine months after March 31, 2018, reflecting an increase in the level of activity.

BDC's investment portfolios, which include the subordinate financing and venture capital portfolios, stood at \$3.0 billion, compared to \$2.7 billion as at March 31, 2018. The asset-backed securities portfolio stood at \$684.4 million, compared to \$472.7 million as at March 31, 2018.

As at December 31, 2018, the fair value of derivative assets was \$9.7 million and the fair value of derivative liabilities was \$12.5 million. Net derivative fair value decreased \$14.8 million since March 31, 2018.



As at December 31, 2018, BDC recorded a net defined benefit asset of \$59.7 million related to the registered pension plan and a net defined benefit liability of \$249.6 million for the other plans, for a total net defined benefit liability of \$189.9 million. This represented a decrease of \$30.0 million, compared to the total net defined benefit liability as at March 31, 2018, primarily as a result of remeasurement losses recorded in the first nine months of fiscal 2019. Refer to page 8 of this report for further information on remeasurements of net defined benefit asset or liability.

BDC holds cash and cash equivalents in accordance with its Treasury Risk Policy. The Bank's liquidities, which ensure funds are available to meet BDC's cash outflows, totalled \$680.0 million as at December 31, 2018, compared to \$672.9 million as at March 31, 2018. For the nine-month period ended December 31, 2018, operating activities used \$1,048.1 million, mainly to support the growth of the loans portfolio. Cash flows used by investing activities amounted to \$338.2 million, reflecting net disbursements of asset-backed securities, venture capital investments and subordinate financing. Financing activities provided \$1,393.4 million in cash flow, mainly as a result of the issuance of long-term and short-term notes.

As at December 31, 2018, BDC funded its portfolios and liquidities with borrowings of \$22.1 billion and total equity of \$7.6 billion. Borrowings comprised \$20.6 billion in short-term notes and \$1.3 billion in long-term notes.

Capital adequacy

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

BDC's internal capital ratio stood at 137.0% as at December 31, 2018, exceeding its target capital ratio of 134%, compared to 134.7% as at March 31, 2018.



Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)

Management’s Responsibility for Financial Information	18
Consolidated Statement of Financial Position	19
Consolidated Statement of Income	20
Consolidated Statement of Comprehensive Income	21
Consolidated Statement of Changes in Equity	22
Consolidated Statement of Cash Flows.....	24
Notes to the Consolidated Financial Statements.....	25
<i>Note 1 BDC general description.....</i>	<i>25</i>
<i>Note 2 Basis of preparation.....</i>	<i>25</i>
<i>Note 3 Significant accounting policies</i>	<i>26</i>
<i>Note 4 Adoption of IFRS 9</i>	<i>31</i>
<i>Note 5 Significant accounting judgements, estimates and assumptions.....</i>	<i>32</i>
<i>Note 6 Fair value of financial instruments.....</i>	<i>33</i>
<i>Note 7 Asset-backed securities.....</i>	<i>36</i>
<i>Note 8 Loans.....</i>	<i>36</i>
<i>Note 9 Subordinate financing investments</i>	<i>39</i>
<i>Note 10 Venture capital investments</i>	<i>40</i>
<i>Note 11 Share capital.....</i>	<i>41</i>
<i>Note 12 Segmented information</i>	<i>42</i>
<i>Note 13 Guarantees.....</i>	<i>47</i>
<i>Note 14 Related party transactions.....</i>	<i>47</i>



Management's Responsibility for Financial Information

Management is responsible for the preparation and fair presentation of these condensed quarterly Consolidated Financial Statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and for such internal controls as management determines are necessary to enable the preparation of condensed quarterly Consolidated Financial Statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly Consolidated Financial Statements.

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

Michael Denham
President and Chief Executive Officer

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

Montreal, Canada
February 6, 2019



Consolidated Statement of Financial Position

(unaudited)

(in thousands of Canadian dollars)	Notes	December 31, 2018	March 31, 2018
ASSETS			
Cash and cash equivalents		679,973	672,870
Asset-backed securities, at FVOCI	7	674,235	465,216
Loans			
Loans, at amortized cost	8	26,099,639	24,432,831
Less: allowance for credit losses	8	(623,387)	(704,640)
Loans at amortized cost, net		25,476,252	23,728,191
Financial assets at fair value through profit or loss			
Derivative assets		9,697	15,357
Asset-backed securities	7	10,143	7,479
Subordinate financing investments	9	1,093,651	1,052,352
Venture capital investments	10	1,864,398	1,663,627
Total financial assets at fair value through profit or loss		2,977,889	2,738,815
Property and equipment		58,516	51,297
Intangible assets		38,326	38,206
Net defined benefit asset		59,745	95,303
Other assets		27,694	19,268
Total assets		29,992,630	27,809,166
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities		107,280	127,453
Short-term notes		20,645,386	20,481,148
Long-term notes		1,185,760	-
Total financial liabilities at amortized cost		21,938,426	20,608,601
Financial liabilities at fair value through profit or loss			
Derivative liabilities		12,521	3,387
Long-term notes		137,463	137,684
Total financial liabilities at fair value through profit or loss		149,984	141,071
Net defined benefit liability		249,649	255,225
Other liabilities		83,402	45,066
Total liabilities		22,421,461	21,049,963
Equity			
Share capital	11	2,602,900	2,477,900
Contributed surplus		27,778	27,778
Retained earnings		4,892,864	4,211,785
Accumulated other comprehensive income		3,345	(991)
Equity attributable to BDC's shareholder		7,526,887	6,716,472
Non-controlling interests		44,282	42,731
Total equity		7,571,169	6,759,203
Total liabilities and equity		29,992,630	27,809,166

Guarantees (Note 13)

Commitments (Notes 7, 8, 9 and 10)

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 December 31	
	2018	2017	2018	2017
Interest income	416,309	351,509	1,188,671	995,311
Interest expense	80,494	40,857	202,346	93,567
Net interest income	335,815	310,652	986,325	901,744
Net realized gains (losses) on investments	10,204	8,039	40,821	(19,649)
Revenue from Advisory Services	6,689	4,844	18,714	14,041
Fee and other income	10,037	11,523	32,990	31,391
Net revenue	362,745	335,058	1,078,850	927,527
Provision for credit losses	(44,382)	(38,438)	(115,689)	(97,928)
Net change in unrealized appreciation (depreciation) of investments	(10,018)	(9,904)	57,963	189,761
Net foreign exchange gains (losses)	37,631	4,793	34,802	(32,195)
Net gains (losses) on other financial instruments	(33)	519	511	1,121
Income before operating and administrative expenses	345,943	292,028	1,056,437	988,286
Salaries and benefits	99,946	92,521	299,969	279,417
Premises and equipment	10,728	10,089	32,338	30,452
Other expenses	35,993	32,144	90,212	84,178
Operating and administrative expenses	146,667	134,754	422,519	394,047
Net income	199,276	157,274	633,918	594,239
Net income attributable to:				
BDC's shareholder	196,827	156,057	630,479	554,902
Non-controlling interests	2,449	1,217	3,439	39,337
Net income	199,276	157,274	633,918	594,239

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



Consolidated Statement of Comprehensive Income

(unaudited)

(in thousands of Canadian dollars)	Three months ended December 31		Nine months ended December 31	
	2018	2017	2018	2017
Net income	199,276	157,274	633,918	594,239
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on FVOCI assets	3,048	11	2,704	(3,498)
Net unrealized gains (losses) on cash flow hedges	-	590	2,473	770
Reclassification to net income of losses (gains) on cash flow hedges	(284)	(242)	(841)	(739)
Net change in unrealized gains (losses) on cash flow hedges	(284)	348	1,632	31
Total items that may be reclassified subsequently to net income	2,764	359	4,336	(3,467)
Items that will not be reclassified to net income				
Remeasurements of net defined benefit asset or liability	(121,132)	(26,867)	(11,450)	(10,857)
Other comprehensive income (loss)	(118,368)	(26,508)	(7,114)	(14,324)
Total comprehensive income	80,908	130,766	626,804	579,915
Total comprehensive income attributable to:				
BDC's shareholder	78,459	129,549	623,365	540,578
Non-controlling interests	2,449	1,217	3,439	39,337
Total comprehensive income	80,908	130,766	626,804	579,915

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	Cash flow hedges	Total			
Balance as at September 30, 2018	2,477,900	27,778	4,817,169	(4,620)	5,201	581	7,323,428	38,771	7,362,199
Total comprehensive income									
Net income			196,827				196,827	2,449	199,276
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on FVOCI assets				3,048		3,048	3,048		3,048
Net change in unrealized gains (losses) on cash flow hedges					(284)	(284)	(284)		(284)
Remeasurements of net defined benefit asset or liability			(121,132)				(121,132)		(121,132)
Other comprehensive income (loss)	-	-	(121,132)	3,048	(284)	2,764	(118,368)	-	(118,368)
Total comprehensive income	-	-	75,695	3,048	(284)	2,764	78,459	2,449	80,908
Issuance of shares	125,000						125,000		125,000
Distributions to non-controlling interests								1,437	1,437
Capital injections from non-controlling interests								1,625	1,625
Transactions with owner, recorded directly in equity	125,000	-	-	-	-	-	125,000	3,062	128,062
Balance as at December 31, 2018	2,602,900	27,778	4,892,864	(1,572)	4,917	3,345	7,526,887	44,282	7,571,169

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)			Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
				FVOCI assets	Cash flow hedges	Total			
Balance as at September 30, 2017	2,413,400	27,778	3,888,467	(4,220)	3,104	(1,116)	6,328,529	39,551	6,368,080
Total comprehensive income									
Net income			156,057				156,057	1,217	157,274
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on FVOCI assets				11		11	11		11
Net change in unrealized gains (losses) on cash flow hedges					348	348	348		348
Remeasurements of net defined benefit asset or liability			(26,867)				(26,867)		(26,867)
Other comprehensive income (loss)	-	-	(26,867)	11	348	359	(26,508)	-	(26,508)
Total comprehensive income	-	-	129,190	11	348	359	129,549	1,217	130,766
Issuance of shares	64,500						64,500		64,500
Distributions to non-controlling interests								(1,607)	(1,607)
Capital injections from non-controlling interests								-	-
Transactions with owner, recorded directly in equity	64,500	-	-	-	-	-	64,500	(1,607)	62,893
Balance as at December 31, 2017	2,477,900	27,778	4,017,657	(4,209)	3,452	(757)	6,522,578	39,161	6,561,739

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	Cash flow hedges	Total			
Balance as at March 31, 2018	2,477,900	27,778	4,211,785	(4,276)	3,285	(991)	6,716,472	42,731	6,759,203
Impact of adopting IFRS 9 on April 1, 2018			131,750				131,750		131,750
Opening balance as at April 1, 2018	2,477,900	27,778	4,343,535	(4,276)	3,285	(991)	6,848,222	42,731	6,890,953
Total comprehensive income									
Net income			630,479				630,479	3,439	633,918
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on FVOCI assets				2,704		2,704	2,704		2,704
Net change in unrealized gains (losses) on cash flow hedges					1,632	1,632	1,632		1,632
Remeasurements of net defined benefit asset or liability			(11,450)				(11,450)		(11,450)
Other comprehensive income (loss)	-	-	(11,450)	2,704	1,632	4,336	(7,114)	-	(7,114)
Total comprehensive income	-	-	619,029	2,704	1,632	4,336	623,365	3,439	626,804
Issuance of shares	125,000						125,000		125,000
Dividends on common shares			(69,700)				(69,700)		(69,700)
Distributions to non-controlling interests								(4,777)	(4,777)
Capital injections from non-controlling interests								2,889	2,889
Transactions with owner, recorded directly in equity	125,000	-	(69,700)	-	-	-	55,300	(1,888)	53,412
Balance as at December 31, 2018	2,602,900	27,778	4,892,864	(1,572)	4,917	3,345	7,526,887	44,282	7,571,169

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)			Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
				FVOCI assets	Cash flow hedges	Total			
Balance as at March 31, 2017	2,413,400	27,778	3,473,612	(711)	3,421	2,710	5,917,500	21,795	5,939,295
Total comprehensive income									
Net income			554,902				554,902	39,337	594,239
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on FVOCI assets				(3,498)		(3,498)	(3,498)		(3,498)
Net change in unrealized gains (losses) on cash flow hedges					31	31	31		31
Remeasurements of net defined benefit asset or liability			(10,857)				(10,857)		(10,857)
Other comprehensive income (loss)	-	-	(10,857)	(3,498)	31	(3,467)	(14,324)	-	(14,324)
Total comprehensive income	-	-	544,045	(3,498)	31	(3,467)	540,578	39,337	579,915
Issuance of shares	64,500						64,500		64,500
Dividends on common shares			-				-		-
Distributions to non-controlling interests								(22,763)	(22,763)
Capital injections from non-controlling interests								792	792
Transactions with owner, recorded directly in equity	64,500	-	-	-	-	-	64,500	(21,971)	42,529
Balance as at December 31, 2017	2,477,900	27,778	4,017,657	(4,209)	3,452	(757)	6,522,578	39,161	6,561,739

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		Nine months ended	
	December 31		December 31	
	2018	2017	2018	2017
Operating activities				
Net income	199,276	157,274	633,918	594,239
Adjustments to determine net cash flows				
Interest income	(416,309)	(351,509)	(1,188,671)	(995,311)
Interest expense	80,494	40,857	202,346	93,567
Net realized losses (gains) on investments	(10,204)	(8,039)	(40,821)	19,649
Provision for credit losses	44,382	38,438	115,689	97,928
Net change in unrealized depreciation (appreciation) on investments	10,018	9,904	(57,963)	(189,761)
Net unrealized foreign exchange losses (gains)	(45,026)	(13,728)	(52,664)	50,242
Net unrealized losses (gains) on other financial instruments	317	(278)	1,304	(382)
Defined benefits funding below (in excess of) amounts expensed	9,577	6,915	18,532	6,096
Depreciation of property and equipment, and amortization of intangible assets	4,874	4,051	14,386	11,745
Loss (gain) on derecognition of property and equipment	-	-	-	-
Other	6,467	(7,824)	(5,789)	(15,176)
Interest expense paid	(74,954)	(37,993)	(190,972)	(86,879)
Interest income received	411,656	338,994	1,164,491	953,493
Changes in operating assets and liabilities				
Net change in loans	(517,266)	(561,325)	(1,649,924)	(1,566,076)
Net change in accounts payable and accrued liabilities	18,628	16,430	(20,173)	(25,573)
Net change in other assets and other liabilities	9,390	6,094	8,224	758
Net cash flows provided (used) by operating activities	(268,680)	(361,739)	(1,048,087)	(1,051,441)
Investing activities				
Disbursements for asset-backed securities	(140,486)	(84,008)	(380,381)	(239,424)
Repayments and proceeds on sale of asset-backed securities	57,771	56,150	172,189	255,501
Disbursements for subordinate financing investments	(111,439)	(119,690)	(265,692)	(322,691)
Repayments of subordinate financing investments	75,864	54,105	225,934	154,835
Disbursements for venture capital investments	(63,659)	(42,374)	(175,205)	(226,090)
Proceeds on sale of venture capital investments	26,095	45,561	106,649	107,539
Acquisition of property and equipment	(3,105)	(7,666)	(14,027)	(17,415)
Acquisition of intangible assets	(2,407)	(3,972)	(7,698)	(10,812)
Net cash flows provided (used) by investing activities	(161,366)	(101,894)	(338,231)	(298,557)
Financing activities				
Net change in short-term notes	(100,000)	420,036	160,009	1,364,961
Issue of long-term notes	415,000	-	1,180,000	-
Repayment of long-term notes	-	(4,700)	-	(21,175)
Distributions to non-controlling interests	1,437	(1,607)	(4,777)	(22,763)
Capital injections from non-controlling interests	1,625	-	2,889	792
Issue of common shares	125,000	64,500	125,000	64,500
Dividends paid on common shares	-	-	(69,700)	-
Net cash flows provided (used) by financing activities	443,062	478,229	1,393,421	1,386,315
Net increase (decrease) in cash and cash equivalents	13,016	14,596	7,103	36,317
Cash and cash equivalents at beginning of period	666,957	670,889	672,870	649,168
Cash and cash equivalents at end of period	679,973	685,485	679,973	685,485

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



Notes to the Consolidated Financial Statements

(unaudited in thousands of Canadian dollars)

1.

BDC general description

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

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

Effective July 18, 2018, BDC is accountable for its affairs to Parliament through the Minister of Small Business and Export Promotion.

2.

Basis of preparation

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

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

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

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

The condensed quarterly Consolidated Financial Statements were approved for issue by the Board of Directors on February 6, 2019.



3.

Significant accounting policies

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

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

Financial instruments

Recognition, derecognition and measurement of financial instruments

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

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

Financial instruments are recognized and derecognized using settlement date accounting.

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

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

Financial assets

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

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

Business model assessment

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

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

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

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

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

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

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

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

Financial liabilities

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

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

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

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

Financial instruments classified as at amortized cost

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

Financial instruments classified as at fair value through profit or loss

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

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

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

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

Financial instruments classified as at fair value through other comprehensive income

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

Financial liabilities designated at fair value through profit or loss

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

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

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

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

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

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

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

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

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

Definition of default

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

Write-off policy

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

Major types of financial instruments

Cash equivalents

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

Cash equivalents are classified at amortized cost.

Cash equivalents are monitored daily to determine the counterparty credit risk using external credit rating agencies. As at December 31, 2018, cash equivalents are considered to have a low credit risk based on the counterparties' external credit ratings of A to AA. The low credit risk simplification is used and impairment on cash equivalents is calculated based on 12-month expected credit losses.

Asset-backed securities

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

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

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

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

Loans

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

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

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

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

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

Subordinate financing and venture capital investments

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

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

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



4. Adoption of IFRS 9

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

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

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

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

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



5.

Significant accounting judgements, estimates and assumptions

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

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

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

Estimates and Assumptions

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

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

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

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

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

Fair value of financial instruments

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

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

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

Qualifying hedge relationships

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

6.

Fair value of financial instruments

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

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

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

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

	Fair value measurements using			December 31, 2018
	Level 1	Level 2	Level 3	Total fair value
Assets				
Derivative assets		9,697		9,697
Asset-backed securities, as at FVOCI		674,235		674,235
Asset-backed securities, as at FVTPL		10,143		10,143
Subordinate financing investments	1,393		1,092,258	1,093,651
Venture capital investments	139,957		1,724,441	1,864,398
	141,350	694,075	2,816,699	3,652,124
Liabilities				
Derivative liabilities		12,521		12,521
Long-term notes designated as at FVTPL		137,463		137,463
	-	149,984	-	149,984
March 31, 2018				
	Fair value measurements using			Total fair value
	Level 1	Level 2	Level 3	
Assets				
Derivative assets		15,357		15,357
Asset-backed securities, available-for-sale		465,216		465,216
Asset-backed securities, as at FVTPL		7,479		7,479
Subordinate financing investments	1,900		1,050,452	1,052,352
Venture capital investments	149,850		1,513,777	1,663,627
	151,750	488,052	2,564,229	3,204,031
Liabilities				
Derivative liabilities		3,387		3,387
Long-term notes designated as at FVTPL		137,684		137,684
	-	141,071	-	141,071

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

	December 31, 2018		
	Subordinate financing investments	Venture capital investments	Total
Fair value as at April 1, 2018	1,050,452	1,513,777	2,564,229
Net realized gains (losses) on investments	25,490	15,276	40,766
Net change in unrealized appreciation (depreciation) of investments	(17,904)	100,141	82,237
Net unrealized foreign exchange gains (losses) on investments	-	30,640	30,640
Disbursements for investments	263,037	174,771	437,808
Repayments of investments and other	(228,817)	(110,034)	(338,851)
Transfers from level 3 to level 1	-	(130)	(130)
Fair value as at December 31, 2018	1,092,258	1,724,441	2,816,699

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

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



7.

Asset-backed securities

	December 31, 2018	March 31, 2018
Fair value through other comprehensive income		
Principal amount	675,808	469,492
Cumulative fair value appreciation (depreciation)	(1,573)	(4,276)
Carrying value	674,235	465,216
Yield	2.64%	2.19%
Fair value through profit or loss		
Principal amount	10,145	7,543
Cumulative fair value appreciation (depreciation)	(2)	(64)
Carrying value	10,143	7,479
Yield	7.88%	7.79%
Asset-backed securities	684,378	472,695

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

Undisbursed amounts of authorized asset-backed securities were \$465,000 as at December 31, 2018 (\$403,000 as at March 31, 2018).

8.

Loans

The following tables summarize loans outstanding by contractual maturity date.

	Within 1 year	1 to 5 years	Over 5 years	Total gross carrying amount	Allowance for credit losses	Total net carrying amount
Performing	474,149	2,861,841	21,901,162	25,237,152	(279,788)	24,957,364
Impaired	24,737	132,727	705,023	862,487	(343,599)	518,888
Loans as at December 31, 2018	498,886	2,994,568	22,606,185	26,099,639	(623,387)	25,476,252

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

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

	December 31, 2018			
	Allowance for credit losses			
	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2018	110,259	147,304	314,884	572,447
Provision for credit losses				
Transfer to Stage 1 ⁽¹⁾	51,197	(49,232)	(1,965)	-
Transfer to Stage 2 ⁽¹⁾	(30,677)	56,283	(25,606)	-
Transfer to Stage 3 ⁽¹⁾	(1,243)	(23,140)	24,383	-
Net remeasurement of allowance for credit losses ⁽²⁾	(63,651)	37,682	114,598	88,629
Financial assets that have been fully repaid ⁽³⁾	(9,327)	(13,641)	(32,600)	(55,568)
New financial assets originated	55,489	12,255	-	67,744
Changes in models/risks parameters ⁽⁴⁾	-	-	-	-
Write-offs	-	-	(65,202)	(65,202)
Recoveries	-	-	12,471	12,471
Foreign exchange and other movements	(76)	306	2,636	2,866
Balance as at December 31, 2018	111,971	167,817	343,599	623,387

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

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

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

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

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

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Concentrations of total loans outstanding and undisbursed commitments

Undisbursed amounts of authorized loans were \$3,553,947 as at December 31, 2018 (\$865,513 fixed rate; \$2,688,434 floating rate). The weighted-average effective interest rate was 5.3% on loan commitments (5.0% as at March 31, 2018).

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

Geographic distribution	December 31, 2018		March 31, 2018	
	Outstanding	Commitments	Outstanding	Commitments
Newfoundland and Labrador	883,081	52,444	877,891	65,037
Prince Edward Island	77,262	1,688	70,651	10,729
Nova Scotia	613,806	62,348	562,650	78,644
New Brunswick	492,348	61,962	494,334	39,447
Quebec	8,330,002	899,707	7,658,985	877,635
Ontario	7,178,891	1,193,993	6,689,723	841,715
Manitoba	730,213	84,808	726,386	132,416
Saskatchewan	798,156	43,147	800,563	50,501
Alberta	3,729,924	597,104	3,545,959	523,994
British Columbia	3,110,738	536,889	2,855,772	461,037
Yukon	106,398	9,925	108,548	3,561
Northwest Territories and Nunavut	48,820	9,932	41,369	2,820
Loans	26,099,639	3,553,947	24,432,831	3,087,536

Industry sector	December 31, 2018		March 31, 2018	
	Outstanding	Commitments	Outstanding	Commitments
Manufacturing	6,042,285	917,228	5,611,342	828,926
Wholesale and retail trade	4,833,350	527,443	4,579,060	440,197
Service industries	3,714,253	460,008	3,438,475	392,878
Tourism	3,250,510	424,155	3,046,763	414,777
Commercial properties	2,852,244	141,831	2,674,608	155,636
Construction	2,009,772	347,995	1,903,043	231,517
Transportation and storage	1,476,864	257,554	1,386,700	168,158
Resources	1,061,872	257,275	1,018,978	285,659
Other	858,489	220,458	773,862	169,788
Loans	26,099,639	3,553,947	24,432,831	3,087,536

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

	December 31, 2018			
	Allowance for credit losses on commitments			
	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2018	16,320	5,367	-	21,687
Net remeasurement of the allowance for credit losses	(1,391)	6,169	-	4,778
Net increase (decrease) in commitments	3,964	(7,631)	-	(3,667)
Foreign exchange and other movements	(7)	17	-	10
Balance as at December 31, 2018	18,886	3,922	-	22,808

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



9.

Subordinate financing investments

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

	Within 1 year	1 to 5 years	Over 5 years	Total cost	Total fair value
As at December 31, 2018	159,340	700,196	291,951	1,151,487	1,093,651
As at March 31, 2018	94,090	717,299	278,101	1,089,490	1,052,352

Concentrations of subordinate financing investments and commitments

Undisbursed amounts of authorized investments totalled \$161,688 as at December 31, 2018 (\$71,153 fixed rate; \$90,535 floating rate). The weighted average effective interest rate was 8.6% on subordinate financing commitments (10.0% as at March 31, 2018), excluding non-interest return.

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

Geographic distribution	December 31, 2018			March 31, 2018		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Newfoundland and Labrador	6,651	11,458	20,806	5,439	10,694	374
Nova Scotia	11,925	12,889	-	13,227	16,260	1,000
New Brunswick	26,593	25,018	1,950	23,353	22,122	4,200
Quebec	424,792	439,031	54,455	413,215	422,895	27,721
Ontario	378,994	407,089	64,347	356,729	362,113	62,112
Manitoba	1,176	2,101	-	7,382	5,864	-
Saskatchewan	47,534	50,358	3,080	46,111	48,557	1,100
Alberta	84,700	96,603	6,800	103,504	117,849	3,437
British Columbia	107,285	103,008	10,250	78,181	77,941	8,500
Yukon	431	443	-	542	565	-
Northwest Territories and Nunavut	3,570	3,489	-	4,669	4,630	-
Subordinate financing investments	1,093,651	1,151,487	161,688	1,052,352	1,089,490	108,444

Industry sector	December 31, 2018			March 31, 2018		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Manufacturing	343,864	375,363	86,233	316,080	329,636	44,948
Service industries	307,472	317,914	33,193	283,565	291,641	27,895
Wholesale and retail trade	196,168	204,276	8,750	203,862	212,427	14,784
Construction	58,740	58,784	3,700	66,390	65,418	6,200
Information industries	56,736	56,930	20,280	58,201	58,124	7,450
Transportation and storage	43,059	46,335	5,500	26,298	30,454	2,650
Resources	35,549	52,203	2,850	49,906	69,166	1,767
Tourism	13,241	13,478	682	8,562	8,867	2,750
Educational services	8,224	8,038	-	8,307	8,157	-
Other	30,598	18,166	500	31,181	15,600	-
Subordinate financing investments	1,093,651	1,151,487	161,688	1,052,352	1,089,490	108,444

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



10.

Venture capital investments

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

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

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

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

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

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

Investment type	December 31, 2018			March 31, 2018		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Direct investments	822,048	611,208	11,767	726,227	544,303	31,442
Funds ⁽¹⁾	1,042,350	760,697	729,311	937,400	741,818	346,600
Venture capital investments	1,864,398	1,371,905	741,078	1,663,627	1,286,121	378,042

⁽¹⁾ Included in the amounts above, the fair value of VCIP investments stood at \$444,738, and their cost was \$366,082 as at December 31, 2018 (\$400,516 and \$363,269, respectively, as at March 31, 2018). As at December 31, 2018, BDC's invested in 73 funds through VC business line and 14 funds through VCIP (70 funds and 8 funds, respectively, as at March 31, 2018).

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Concentrations of total venture capital investments and commitments

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

Industry sector	December 31, 2018			March 31, 2018		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Information technology	356,562	252,197	3,404	303,064	232,627	10,962
Biotechnology and pharmacology	179,873	88,590	-	174,424	85,288	3,150
Industrial	68,068	21,504	560	57,747	15,197	-
Communications	60,982	57,361	1,464	47,867	51,565	1,080
Electronics	48,512	57,459	3,695	54,064	56,141	3,570
Energy	41,659	53,314	-	33,258	35,394	10,000
Medical and health	25,605	55,063	2,644	28,810	53,883	2,680
Other	40,787	25,720	-	26,993	14,208	-
Total direct investments	822,048	611,208	11,767	726,227	544,303	31,442
Funds	1,042,350	760,697	729,311	937,400	741,818	346,600
Venture capital investments	1,864,398	1,371,905	741,078	1,663,627	1,286,121	378,042

11.

Share capital

An unlimited number of common shares, having a par value of \$100 each, is authorized. As at December 31, 2018, there were 26,029,000 common shares outstanding (24,779,000 as at March 31, 2018).

During the three-month period ended December 31, 2018, BDC issued 1,250,000 common shares worth \$125.0 million related to Cleantech Practice (645,000 common shares worth \$64.5 million related to VCAP during the same period last year).

Statutory limitations

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

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

During the nine months ended December 31, 2018 and the year ended March 31, 2018, BDC met both of these statutory limitations.

Capital adequacy

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



12.

Segmented information

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

Three months ended
December 31, 2018

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice
Interest income	416,309	390,660	-	25,235	-	-	414
Interest expense	80,494	78,179	-	2,315	-	-	-
Net interest income	335,815	312,481	-	22,920	-	-	414
Net realized gains (losses) on investments	10,204	1	-	4,751	5,452	-	-
Revenue from Advisory Services	6,689	-	6,689	-	-	-	-
Fee and other income	10,037	5,327	-	4,604	(111)	81	136
Net revenue (loss)	362,745	317,809	6,689	32,275	5,341	81	550
Provision for credit losses	(44,382)	(44,382)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	(10,018)	1,078	-	(11,572)	(2,989)	3,805	(340)
Net foreign exchange gains (losses)	37,631	(36)	-	858	36,450	359	-
Net gains (losses) on other financial instruments	(33)	(33)	-	-	-	-	-
Income (loss) before operating and administrative expenses	345,943	274,436	6,689	21,561	38,802	4,245	210
Salaries and benefits	99,946	72,876	12,820	9,435	3,866	219	730
Premises and equipment	10,728	8,547	1,134	553	415	25	54
Other expenses	35,993	26,184	4,983	1,137	2,501	1,105	83
Operating and administrative expenses	146,667	107,607	18,937	11,125	6,782	1,349	867
Net income (loss)	199,276	166,829	(12,248)	10,436	32,020	2,896	(657)
Net income (loss) attributable to:							
BDC's shareholder	196,827	166,829	(12,248)	11,927	28,080	2,896	(657)
Non-controlling interests	2,449	-	-	(1,491)	3,940	-	-
Net income (loss)	199,276	166,829	(12,248)	10,436	32,020	2,896	(657)
Business segment portfolio as at December 31, 2018							
Asset-backed securities at FVTOCI	674,235	674,235	-	-	-	-	-
Loans	25,476,252	25,476,252	-	-	-	-	-
Asset-backed securities at FVTPL	10,143	10,143	-	-	-	-	-
Subordinate financing investments	1,093,651	11,365	-	1,052,148	-	-	30,138
Venture capital investments	1,864,398	-	-	-	1,397,179	444,738	22,481
Total portfolio	29,118,679	26,171,995	-	1,052,148	1,397,179	444,738	52,619
Business segment undisbursed commitments as at December 31, 2018							
Loans	3,553,947	3,553,947	-	-	-	-	-
Asset-backed securities	465,000	465,000	-	-	-	-	-
Investments	902,766	500	-	116,212	416,132	304,485	65,437
Total commitments	4,921,713	4,019,447	-	116,212	416,132	304,485	65,437

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Three months ended
December 31, 2017

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice
Interest income	351,509	329,205	-	22,304	-	-	-
Interest expense	40,857	39,360	-	1,497	-	-	-
Net interest income	310,652	289,845	-	20,807	-	-	-
Net realized gains (losses) on investments	8,039	-	-	(1,525)	9,564	-	-
Revenue from Advisory Services	4,844	-	4,844	-	-	-	-
Fee and other income	11,523	4,840	35	6,469	140	39	-
Net revenue (loss)	335,058	294,685	4,879	25,751	9,704	39	-
Provision for credit losses	(38,438)	(38,438)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	(9,904)	199	-	(14,214)	3,151	960	-
Net foreign exchange gains (losses)	4,793	(144)	-	46	4,863	28	-
Net gains (losses) on other financial instruments	519	519	-	-	-	-	-
Income (loss) before operating and administrative expenses	292,028	256,821	4,879	11,583	17,718	1,027	-
Salaries and benefits	92,521	68,879	11,289	7,992	4,144	217	-
Premises and equipment	10,089	8,064	1,077	513	416	19	-
Other expenses	32,144	24,958	4,646	1,315	1,204	21	-
Operating and administrative expenses	134,754	101,901	17,012	9,820	5,764	257	-
Net income (loss)	157,274	154,920	(12,133)	1,763	11,954	770	-
Net income (loss) attributable to:							
BDC's shareholder	156,057	154,920	(12,133)	1,487	11,013	770	-
Non-controlling interests	1,217	-	-	276	941	-	-
Net income (loss)	157,274	154,920	(12,133)	1,763	11,954	770	-
Business segment portfolio as at December 31, 2017							
Asset-backed securities at FVTOCI	490,662	490,662	-	-	-	-	-
Loans	23,246,574	23,246,574	-	-	-	-	-
Asset-backed securities at FVTPL	7,801	7,801	-	-	-	-	-
Subordinate financing investments	1,037,207	8,649	-	1,028,558	-	-	-
Venture capital investments	1,572,725	-	-	-	1,188,137	384,588	-
Total portfolio	26,354,969	23,753,686	-	1,028,558	1,188,137	384,588	-
Business segment undisbursed commitments as at December 31, 2017							
Loans	3,223,888	3,223,888	-	-	-	-	-
Asset-backed securities	378,000	378,000	-	-	-	-	-
Investments	441,035	1,380	-	126,866	284,876	27,913	-
Total commitments	4,042,923	3,603,268	-	126,866	284,876	27,913	-

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Nine months ended
December 31, 2018

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice
Interest income	1,188,671	1,117,520	-	70,131	-	-	1,020
Interest expense	202,346	196,274	-	6,072	-	-	-
Net interest income	986,325	921,246	-	64,059	-	-	1,020
Net realized gains (losses) on investments	40,821	1	-	25,490	15,330	-	-
Revenue from Advisory Services	18,714	-	18,714	-	-	-	-
Fee and other income	32,990	15,762	21	15,370	1,483	213	141
Net revenue (loss)	1,078,850	937,009	18,735	104,919	16,813	213	1,161
Provision for credit losses	(115,689)	(115,689)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	57,963	1,091	-	(19,440)	35,607	41,045	(340)
Net foreign exchange gains (losses)	34,802	(4,879)	-	860	38,457	364	-
Net gains (losses) on other financial instruments	511	511	-	-	-	-	-
Income (loss) before operating and administrative expenses	1,056,437	818,043	18,735	86,339	90,877	41,622	821
Salaries and benefits	299,969	218,449	38,068	27,979	12,690	673	2,110
Premises and equipment	32,338	25,837	3,323	1,646	1,297	81	154
Other expenses	90,212	65,042	13,693	3,567	6,248	1,364	298
Operating and administrative expenses	422,519	309,328	55,084	33,192	20,235	2,118	2,562
Net income (loss)	633,918	508,715	(36,349)	53,147	70,642	39,504	(1,741)
Net income (loss) attributable to:							
BDC's shareholder	630,479	508,715	(36,349)	53,134	67,216	39,504	(1,741)
Non-controlling interests	3,439	-	-	13	3,426	-	-
Net income (loss)	633,918	508,715	(36,349)	53,147	70,642	39,504	(1,741)

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Nine months ended
December 31, 2017

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice
Interest income	995,311	932,140	-	63,171	-	-	-
Interest expense	93,567	89,812	-	3,755	-	-	-
Net interest income	901,744	842,328	-	59,416	-	-	-
Net realized gains (losses) on investments	(19,649)	228	-	2,534	(22,411)	-	-
Revenue from Advisory Services	14,041	-	14,041	-	-	-	-
Fee and other income	31,391	13,964	138	16,817	383	89	-
Net revenue (loss)	927,527	856,520	14,179	78,767	(22,028)	89	-
Provision for credit losses	(97,928)	(97,928)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	189,761	224	-	1,001	176,536	12,000	-
Net foreign exchange gains (losses)	(32,195)	(2,626)	-	(365)	(28,986)	(218)	-
Net gains (losses) on other financial instruments	1,121	1,121	-	-	-	-	-
Income (loss) before operating and administrative expenses	988,286	757,311	14,179	79,403	125,522	11,871	-
Salaries and benefits	279,417	206,973	35,000	24,078	12,690	676	-
Premises and equipment	30,452	24,266	3,214	1,533	1,388	51	-
Other expenses	84,178	63,644	13,405	3,469	3,589	71	-
Operating and administrative expenses	394,047	294,883	51,619	29,080	17,667	798	-
Net income (loss)	594,239	462,428	(37,440)	50,323	107,855	11,073	-
Net income (loss) attributable to:							
BDC's shareholder	554,902	462,428	(37,440)	41,666	77,175	11,073	-
Non-controlling interests	39,337	-	-	8,657	30,680	-	-
Net income (loss)	594,239	462,428	(37,440)	50,323	107,855	11,073	-



13.

Guarantees

BDC issues “letters of credit, loan guarantees and portfolio guarantees” (guarantees) to support businesses. Those guarantees represent BDC’s obligation to make payments to third parties if clients are unable to meet their contractual commitments. Collateral requirements for guarantees are consistent with BDC collateral requirements for loans. The fee income earned is calculated on a straight-line basis over the life of the instrument and recognized in fee and other income in the Consolidated Statement of Income. The maximum contractual obligation under the guarantees totalled \$40.7 million as at December 31, 2018 (\$45.5 million as at March 31, 2018) and the existing terms expire within 130 months (within 139 months as at March 31, 2018). However, the actual exposure as at December 31, 2018, was \$30.5 million (\$34.4 million as at March 31, 2018).

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

14.

Related party transactions

As at December 31, 2018 BDC had \$20,644 million outstanding in short-term notes and \$1,186 million long-term notes with Her Majesty the Queen in Right of Canada acting through the Minister of Finance (\$20,480 million in short-term notes and no long-term notes as at March 31, 2018).

BDC recorded \$83.2 million in interest expense, related to the borrowings from the Minister of Finance, for the quarter and \$209.6 million for the nine-months ended December 31, 2018. Last year’s comparative figure for the same periods were \$41.8 million and \$96.0 million, respectively.

In addition, \$110 million in borrowing with the Minister of Finance was repurchased in the first nine months of fiscal 2019. This resulted in no gain or loss for the first nine-month period (no 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.



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