2022
Financial Report

Third Quarter

December 31, 2021

Executive Summary

Canadian economic outlook

A new and more contagious variant of the coronavirus, Omicron, hit Canada in late November, resulting in record spikes in new daily cases. Before increased restrictions to slow down the Omicron wave came into effect, the Canadian economic recovery had been on track in the third quarter of fiscal 2022.

Real GDP grew by 0.6% in November, compared to 0.8% in October, as pandemic health measures continued to be withdrawn across the country at that time. Therefore, Canadian economic activity had reached its pre-pandemic level of February 2020 in November 2021.

According to preliminary data from Statistics Canada, GDP was essentially unchanged in December, confirming strengthening economic gains in the last quarter of calendar year 2021 at 1.6%.

Canada's robust economic performance in the last quarter of calendar year 2021 led to the net creation of almost 240,000 jobs in the period. That left employment at 1.3 percentage points above its pre-pandemic level, bringing the national unemployment rate down to 5.9% at year end.

However, recovery in the economic and labour markets remained highly uneven across sectors. High-contact industries—mainly accommodation and food services—have yet to recover losses experienced over the 20-plus months of pandemic. These industries will also likely suffer the most from the Omicron wave into the beginning of 2022.

Demand bounced back significantly since the reopening of the economy last summer, which in turn spurred price increases. Inflation reached 4.7% in October and November—a 30-year high.

As inflationary pressures continue to spread throughout the economy, the Bank of Canada began to tighten monetary policy in the fall. While the bank maintained its policy rate at 0.25%, it put an end to its quantitative easing program and moved forward to April its guidance for a first potential interest rate hike. In response, effective interest rates for households and businesses have begun to creep higher.

Meanwhile, households remain in good financial position to support the economic recovery. Consumers' disposable income remains elevated, with excess savings reaching about $300 billion or roughly 10% of Canada's GDP.

However, many businesses are having difficulty keeping up with the rebound in consumer demand. Supply chain bottlenecks and labour scarcity are limiting capacity and consumers' ability to spend. In the fall of 2021, 75% of SMEs were experiencing supply issues, while nearly 965,000 jobs remained vacant.

Oil prices recovered quickly from a slight pullback brought on by the latest wave of COVID-19. A rally in the main benchmarks has supported the Canadian dollar at around $0.78US, even as downward pressure mounted amid economic uncertainty and the U.S. Federal Reserve's aggressive tone on inflation.

Overall, early estimates suggest Canada's economy reached 4.7% growth in 2021. With containment measures against the spread of the COVID-19 being reintroduced or increased in many provinces, prospects for growth appear to be modest for the first quarter of calendar year 2022. Despite the setback from Omicron, we continue to expect a solid 3.5% growth rate for 2022 as a whole.

Lines of business

The Business Development Bank of Canada (BDC) reports on six business lines: Financing, Advisory Services, Growth & Transition Capital (GTC), Venture Capital (VC), Capital Incentive Programs (CIP) and the Credit Availability Program (CAP). Refer to Note 11, *Segmented information*, of the Consolidated Financial Statements for a description of each reportable segment's operations.

Activities

BDC aims to contribute to a more competitive, prosperous and inclusive Canada, by supporting entrepreneurs in building resilient, growing businesses.

A critical part of our mission as a development bank is to ensure viable SMEs have access to the credit they need in difficult times. Throughout the COVID-19 pandemic, BDC has supported thousands of additional entrepreneurs, providing them with urgently needed capital and advice in complement to other government programs, through a variety of relief measures. These measures include the Business Credit Availability Program (BCAP) and the Highly Affected Sectors Credit Availability Program (HASCAP), which are delivered in collaboration with Canadian banks and credit unions, as well as measures delivered directly by BDC. All of these measures have been grouped together and are part of the Credit Availability Program (CAP), to distinguish them from BDC's core activities.

Core results are driven by the activities of the Financing, Advisory Services, Growth and Transition Capital, Venture Capital and Capital Incentive Programs business lines, whereas those of the CAP segment result from government-led initiatives including BDC-led COVID-19 initiatives.

Core activities

Financing achieved a very high volume of activities in the third quarter of fiscal 2022, demonstrating that entrepreneurs took advantage of the strong economic recovery and the low interest rate environment to invest. Financing clients accepted a total of $2.8 billion in loans during the third quarter and $7.6 billion for the nine-month period of fiscal 2022, compared to $1.6 billion and $3.8 billion, respectively, for the same periods last year. Last year's activities for this period were shifted to CAP, which offered working capital relief programs to entrepreneurs impacted by COVID-19 until June 30, 2021. Financing's loans portfolio,[1] excluding CAP loans, stood at $29.6 billion as at December 31, 2021.

Demand for Advisory Services picked up during the first nine months of this fiscal year and has returned to its pre-pandemic level. Net contracts signed in the third quarter amounted to $8.0 million and $24.2 million for the nine-month period, compared to $8.1 million and $11.8 million, respectively, for the same periods last year. Revenues also increased, totalling $7.8 million in the third quarter and $21.3 million for the nine-month period ended December 31, 2021, 45% and 56% higher, respectively, compared to the same periods last fiscal.

GTC clients accepted $114.0 million in financing during the third quarter and $384.0 million for the nine-month period, compared to $27.2 million and $97.2 million, respectively, for the same periods last year. Last year's activities for this period were shifted to CAP, which offered working capital relief programs to entrepreneurs impacted by COVID-19 until June 30, 2021. Demand for business growth and transition financing rebounded rapidly after the slowdown caused by the pandemic and the outlook is favourable now that entrepreneurs are able to plan their growth strategy.

VC authorizations for the third quarter and the nine-month period of fiscal 2022 were strong with investment authorizations totalling $173.1 million and $392.2 million, respectively, compared to $139.3 million and $266.1 million, respectively, for the same periods last year. The rise in authorizations was mainly driven by shortened fundraising cycles for both companies and funds, causing capital to be deployed at an accelerated pace.

CIP had $42.8 million in authorizations in the third quarter and $109.1 million in the first nine months of fiscal 2022, compared to $39.2 million and $120.8 million, respectively, for the same periods last year. The volume of authorizations in the fiscal year-to-date is fully attributable to Cleantech Practice, as the envelopes for VCAP of $390 million and VCCI of $371 million were fully committed in F2021. Cleantech Practice's total commitments to date amounted to $477.1 million out of a total envelope of

[1] Net of allowance for expected credit losses.

$600 million. CIP also includes an envelope of $100 million for the Indigenous Growth Fund.

Credit Availability Program (CAP)

Activities under our CAP segment continued to slow down during the third quarter of fiscal 2022, as the Mid Market Financing and the Co Lending Programs ended on December 31, 2021. Initiatives delivered directly by BDC, such as the online loan requests and the working capital loans ended on June 30, 2021. HASCAP remains available to businesses in sectors hardest hit by the COVID-19 pandemic, including tourism, hotels, and arts and culture.

Total loan acceptances and investment authorizations for CAP initiatives, excluding HASCAP guarantees, reached $58.2 million for the third quarter and $307.9 million for the nine-month period of fiscal 2022, compared to $0.4 billion and $3.4 billion, respectively, for the same periods last year. The HASCAP guarantee acceptances amounted to $631.6 million for the quarter and to $2.8 billion for the nine-month period compared to nil for the same periods last year. The carrying amount of CAP's loan and investment portfolio stood at $3.1 billion as at December 31, 2021.

Financial results overview

The COVID-19 pandemic resulted in significant disruptions to business operations, and an increase in economic uncertainty, adversely impacting global commercial activity and contributing to significant ongoing volatility and declines in the global financial markets. However, the overall economy began to recover gradually during F2021 and into the first three quarters of F2022, and as a result, consolidated net income increased.

Consolidated net income amounted to $459.5 million for the third quarter and $2.2 billion for the nine-month period of fiscal 2022, consisting of a net income of $461.8 million and $2.2 billion, respectively, for the core business and a net loss of $2.3 million and $55.7 million, respectively, for CAP. In comparison, BDC reported a consolidated net income of $378.0 million and $371.5 million, respectively, for the same periods last year, consisting of a net income of $414.8 million for the core business and a net loss of $36.8 million for CAP for the three-month period, and a net income of $660.0 million for the core business and a net loss of $288.5 million for CAP for the nine-month period. The higher results are mainly attributable to lower provision for expected credit losses due to reversals of the provision on the performing loans portfolio and higher net fair value appreciation on the investments portfolio.

A $735.0 million dividend was paid in June 2021 to our sole shareholder, the Government of Canada.

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

BDC is the bank for Canadian entrepreneurs. Its purpose is to support small and mid-sized businesses in all industries and at all stages of growth. Whether business owners want to take on new markets, make their operations more efficient, acquire another business or everything in between, BDC provides access to financing, as well as advisory services to meet their needs. BDC's investment arm, BDC Capital, offers a wide range of risk capital solutions. BDC supports underserved entrepreneurs and emergent industries to generate greater social and economic impact. BDC is also certified B Corp and actively contributes to the growth of a worldwide movement of entrepreneurs who create inclusive and sustainable prosperity.

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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

Management's Discussion and Analysis outlines the significant activities and initiatives, risks and financial results of the Business Development Bank of Canada (BDC) for the nine months ended December 31, 2021. This analysis should be read in conjunction with BDC's unaudited condensed quarterly Consolidated Financial Statements included in this report, which have been prepared in accordance with the Standard on Quarterly Financial Reports for Crown Corporations, as required by section 131.1 of the *Financial Administration Act*. This analysis should also be read in conjunction with BDC's 2021 Annual Report. All amounts are in Canadian dollars, unless otherwise specified.

There is no requirement for an audit or review of the financial statements included in the quarterly financial report. Therefore, the condensed quarterly Consolidated Financial Statements included in this report have not been audited or reviewed by an external auditor.

Risk Management

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

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

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

Analysis of Financial Results

Analysis of financial results is provided to enable a reader to assess BDC's results of operations and financial condition for the three-month and nine-month periods ended December 31, 2021, compared to the corresponding periods of the prior fiscal year.

BDC currently reports on six business segments: Financing, Advisory Services, Growth & Transition Capital (GTC), Venture Capital (VC), Capital Incentive Programs (CIP) and the Credit Availability Program (CAP), a new segment created in fiscal 2021 to consolidate government-led initiatives including COVID-19 measures.

Consolidated net income

	Three months ended December 31		Nine months ended December 31	
($ in millions)	**F2022**	F2021	**F2022**	F2021
Financing	**269.6**	250.0	**923.3**	379.8
Advisory Services	**(9.5)**	(10.6)	**(29.6)**	(29.6)
Growth & Transition Capital	**36.2**	25.8	**120.9**	15.9
Venture Capital	**141.1**	105.7	**886.4**	221.0
Capital Incentive Programs	**24.4**	43.9	**319.0**	72.9
Core net income	**461.8**	414.8	**2,220.0**	660.0
Credit Availability Program	**(2.3)**	(36.8)	**(55.7)**	(288.5)
Net income	**459.5**	378.0	**2,164.3**	371.5
Net income (loss) attributable to:				
BDC's shareholder	**412.1**	379.6	**2,088.3**	370.2
Non-controlling interests	**47.4**	(1.6)	**76.0**	1.3
Net income	**459.5**	378.0	**2,164.3**	371.5

Three and nine months ended December 31

For the quarter ended December 31, 2021, BDC's consolidated net income was $459.5 million, comprising $412.1 million of net income attributable to BDC's shareholder and $47.4 million attributable to non-controlling interests. For the equivalent period last year, consolidated net income of $378.0 million included $379.6 million of net income attributable to BDC's shareholder and a net loss of $1.6 million attributable to non-controlling interests. BDC's consolidated Core net income was $461.8 million compared to $414.8 million reported for the same period last year.

For the nine months ended December 31, 2021, BDC recorded a consolidated net income of $2.2 billion compared to a net income of $371.5 million recorded for the same period last year. The increase in consolidated net income was mostly attributable to lower provision for expected credit losses in Financing mainly due to reversal of provisions on performing loans and higher unrealized appreciation of investments for GTC, VC and CIP. The results of CAP were also positively impacted by lower provision for expected credit losses, and lower operating and administrative expenses.

Consolidated comprehensive income (loss)

($ in millions)	Three months ended December 31 F2022	Three months ended December 31 F2021	Nine months ended December 31 F2022	Nine months ended December 31 F2021
Net income	**459.5**	378.0	**2,164.3**	371.5
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on FVOCI assets	**(6.6)**	0.2	**(12.0)**	6.8
Net change in unrealized gains (losses) on cash flow hedges	**(0.1)**	(0.3)	**(0.6)**	(0.9)
Total items that may be reclassified subsequently to net income	**(6.7)**	(0.1)	**(12.6)**	5.9
Items that will not be reclassified to net income				
Remeasurements of net defined benefit asset or liability	**5.8**	(19.6)	**121.7**	(432.5)
Other comprehensive income (loss)	**(0.9)**	(19.7)	**109.1**	(426.6)
Total comprehensive income (loss)	**458.6**	358.3	**2,273.4**	(55.1)
Total comprehensive income (loss) attributable to:				
BDC's shareholder	**411.2**	359.9	**2,197.4**	(56.4)
Non-controlling interests	**47.4**	(1.6)	**76.0**	1.3
Total comprehensive income (loss)	**458.6**	358.3	**2,273.4**	(55.1)

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 volatility as a result of market fluctuations.

BDC recorded a consolidated other comprehensive loss of $0.9 million and other comprehensive income of $109.1 million, respectively, for the third quarter and the nine-month period ended December 31, 2021, compared to other comprehensive losses of $19.7 million and $426.6 million for the same periods last year. The increase in consolidated other comprehensive income for the nine-month period of fiscal 2022 was mainly attributable to a remeasurement gain of $121.7 million on the net defined benefit asset or liability. This gain was due to higher than forecasted returns on pension plan assets, which was offset by lower discount rates used to value the net defined benefit liability.

Financing results

($ in millions)	Three months ended December 31 F2022	Three months ended December 31 F2021	Nine months ended December 31 F2022	Nine months ended December 31 F2021
Net interest income	**347.6**	343.8	**1,030.9**	1,016.9
Fee and other income	**6.3**	6.8	**18.3**	18.1
Provision for expected credit losses	**47.2**	(2.9)	**231.6**	(383.2)
Net realized gains (losses) on investments	**(0.3)**	(0.3)	**(0.6)**	(0.3)
Net change in unrealized appreciation (depreciation) of investments	**(0.1)**	0.3	**(4.1)**	(4.2)
Net foreign exchange gains (losses)	**(1.7)**	(1.6)	**(0.2)**	(2.3)
Net gains (losses) on other financial instruments	**0.1**	0.4	**0.7**	0.9
Income before operating and administrative expenses	**399.1**	346.5	**1,276.6**	645.9
Operating and administrative expenses	**129.5**	96.5	**353.3**	266.1
Net income from Financing	**269.6**	250.0	**923.3**	379.8

As % of average portfolio	Three months ended December 31 F2022	Three months ended December 31 F2021	Nine months ended December 31 F2022	Nine months ended December 31 F2021
Net interest income	**4.4**	4.6	**4.4**	4.5
Fee and other income	**0.1**	0.1	**0.1**	0.1
Provision for expected credit losses	**0.6**	-	**1.0**	(1.7)
Income before operating and administrative expenses	**5.1**	4.7	**5.5**	2.9
Operating and administrative expenses	**1.6**	1.3	**1.5**	1.2
Net income from Financing	**3.5**	3.4	**4.0**	1.7

Three and nine months ended December 31

Net income from Financing was $269.6 million for the third quarter of fiscal 2022 and $923.3 million for the nine-month period ended December 31, 2021, compared to net income of $250.0 million and $379.8 million, respectively, for the same periods last year. The increase of net income from Financing for the three and nine-month periods ended December 31, 2021 resulted mainly from the lower provision for expected credit losses on the impaired loans portfolio and the reversal of provision for expected credit losses on the performing loans portfolio. This was partially offset by higher operating and administrative expenses.

Advisory Services results

($ in millions)	Three months ended December 31 F2022	Three months ended December 31 F2021	Nine months ended December 31 F2022	Nine months ended December 31 F2021
Revenue	**7.8**	5.4	**21.3**	13.7
Delivery expenses[1]	**4.3**	3.1	**11.5**	8.1
Gross operating margin	**3.5**	2.3	**9.8**	5.6
Operating and administrative expenses	**13.0**	12.9	**39.4**	35.2
Net loss from Advisory Services	**(9.5)**	(10.6)	**(29.6)**	(29.6)

[1] Delivery expenses are included in operating and administrative expenses in the Consolidated Statement of Income.

Three and nine months ended December 31

A net loss of $9.5 million was recorded for the third quarter of fiscal 2022, compared to a $10.6 million net loss for the same quarter last year. Cumulative net loss for the nine-month period ended December 31, 2021 was $29.6 million, compared to a net loss of $29.6 million for the same period last year.

Revenue amounted to $21.3 million for the nine-month period ended December 31, 2021, higher than the $13.7 million recorded last year. This fiscal year's revenue reached the pre-pandemic level, which demonstrates that entrepreneurs are recovering from COVID-19 impacts and recognize the value of our services.

Growth & Transition Capital results

($ in millions)	Three months ended December 31 F2022	Three months ended December 31 F2021	Nine months ended December 31 F2022	Nine months ended December 31 F2021
Net revenue on investments	**25.9**	24.3	**93.9**	70.1
Net change in unrealized appreciation (depreciation) of investments	**20.0**	12.3	**54.4**	(26.2)
Net foreign exchange gains (losses)	**0.1**	(1.2)	**0.4**	(2.4)
Income before operating and administrative expenses	**46.0**	35.4	**148.7**	41.5
Operating and administrative expenses	**9.8**	9.6	**27.8**	25.6
Net income from Growth & Transition Capital	**36.2**	25.8	**120.9**	15.9
Net income (loss) attributable to:				
BDC's shareholder	**25.2**	25.8	**104.8**	16.6
Non-controlling interests	**11.0**	-	**16.1**	(0.7)
Net income from Growth & Transition Capital	**36.2**	25.8	**120.9**	15.9

As % of average portfolio	Three months ended December 31 F2022	Three months ended December 31 F2021	Nine months ended December 31 F2022	Nine months ended December 31 F2021
Net revenue on investments	**9.7**	8.9	**12.2**	8.5
Net change in unrealized appreciation (depreciation) of investments	**7.5**	4.5	**7.1**	(3.2)
Net foreign exchange gains (losses)	**-**	(0.4)	**0.1**	(0.3)
Income before operating and administrative expenses	**17.2**	13.0	**19.4**	5.0
Operating and administrative expenses	**3.7**	3.5	**3.6**	3.1
Net income from Growth & Transition Capital	**13.5**	9.5	**15.8**	1.9
Net income (loss) attributable to:				
BDC's shareholder	**9.4**	9.5	**13.7**	2.0
Non-controlling interests	**4.1**	-	**2.1**	(0.1)
Net income from Growth & Transition Capital	**13.5**	9.5	**15.8**	1.9

Three and nine months ended December 31

Net income reached $36.2 million for the third quarter of fiscal 2022, compared to a net income of $25.8 million for the same period last year. For the nine months ended December 31, 2021, GTC recorded net income of $120.9 million, compared to a net income of $15.9 million for the same period of fiscal 2021. Results for the three and nine-month periods ended December 31, 2021 were positively affected by the higher net change in unrealized appreciation of investments.

GTC recorded a net change in unrealized appreciation on investments of $20.0 million in the third quarter of fiscal 2022, and $54.4 million for the first nine months of fiscal 2022, compared to a net change in unrealized appreciation on investments of $12.3 million and a net change in unrealized depreciation on investments of $26.2 million, respectively, during the same periods last year, as detailed below. The $54.4 million net change in unrealized appreciation on investments for the first nine months of fiscal 2022 was mainly explained by a net fair value appreciation of $56.0 million and the reversal of net fair value appreciation due to realized income and write-offs of $1.6 million.

	Three months ended December 31		Nine months ended December 31	
($ in millions)	**F2022**	F2021	**F2022**	F2021
Net fair value appreciation (depreciation)	**14.9**	(1.9)	**56.0**	(46.5)
Reversal of net fair value depreciation (appreciation) due to realized income and write-offs	**5.1**	14.2	**(1.6)**	20.3
Net change in unrealized appreciation (depreciation) of investments	**20.0**	12.3	**54.4**	(26.2)

Operating and administrative expenses amounted to $27.8 million for the nine-month period ended December 31, 2021, higher than the $25.6 million recorded last year. The increase is a result of lower employee costs reallocated to the CAP segment. As the economy continued to recover, the volume of activities shifted back to GTC and resources were no longer required to support the CAP’s COVID-19 initiatives.As the economy continued to recover, the volume of activities shifted back to GTC and resources were no longer required to support the CAP’s COVID-19 initiatives.

Venture Capital results

($ in millions)	Three months ended December 31 F2022	Three months ended December 31 F2021	Nine months ended December 31 F2022	Nine months ended December 31 F2021
Net revenue on investments	**116.3**	30.8	**375.8**	40.5
Net change in unrealized appreciation (depreciation) of investments	**47.8**	114.3	**537.0**	269.6
Net foreign exchange gains (losses)	**(12.7)**	(29.9)	**5.1**	(62.4)
Income before operating and administrative expenses	**151.4**	115.2	**917.9**	247.7
Operating and administrative expenses	**10.3**	9.5	**31.5**	26.7
Net income from Venture Capital	**141.1**	105.7	**886.4**	221.0
Net income (loss) attributable to:				
BDC's shareholder	**104.8**	107.3	**826.5**	219.0
Non-controlling interests	**36.3**	(1.6)	**59.9**	2.0
Net income from Venture Capital	**141.1**	105.7	**886.4**	221.0

Three and nine months ended December 31

During the third quarter of fiscal 2022, VC recorded a net income of $141.1 million, compared to a net income of $105.7 million for the same period last year. For the nine months ended December 31, 2021, VC's net income was $886.4 million, compared to $221.0 million for the same period last year. Results for the third quarter and first nine months of fiscal 2022 were favourably impacted by higher net revenue on investments from realized gain on sales of investments, higher unrealized appreciation on investments, and lower net foreign exchange losses.

VC recorded a net change in unrealized appreciation of investments of $47.8 million for the third quarter and of $537.0 million for the nine months ended December 31, 2021, compared to a net change in unrealized appreciation of $114.3 million and $269.6 million, respectively, for the same periods last year, as detailed below.

($ in millions)	Three months ended December 31 F2022	Three months ended December 31 F2021	Nine months ended December 31 F2022	Nine months ended December 31 F2021
Net fair value appreciation (depreciation)	**119.8**	136.3	**782.3**	268.3
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	**(72.0)**	(22.0)	**(245.3)**	1.3
Net change in unrealized appreciation (depreciation) of investments	**47.8**	114.3	**537.0**	269.6

In the third quarter and nine-month period of fiscal 2022, net foreign exchange losses on investments of $12.7 million and net foreign exchange gains on investments of $5.1 million, respectively, were recorded due to foreign exchange fluctuations in the portfolio in U.S. dollars, compared to net foreign exchange losses on investments of $29.9 million and $62.4 million recorded for the corresponding periods last year.

On a year-to-date basis, operating and administrative expenses amounted to $31.5 million, $4.8 million higher than those recorded for the same period of fiscal 2021. The increase was mainly explained by lower employee costs reallocated to the CAP segment. As the economy continued to recover, the volume of activities shifted back to VC and resources were no longer required to support the CAP's COVID-19 initiatives.As the economy continued to recover, the volume of activities shifted back to VC and resources were no longer required to support the CAP's COVID-19 initiatives.

Capital Incentive Programs results

	Three months ended December 31		Nine months ended December 31	
($ in millions)	**F2022**	F2021	**F2022**	F2021
Net revenue on investments	**(2.8)**	5.5	**74.5**	9.8
Net change in unrealized appreciation (depreciation) of investments	**29.2**	40.7	**248.6**	68.7
Net foreign exchange gains (losses)	**(0.5)**	(0.9)	**0.4**	(1.9)
Income before operating and administrative expenses	**25.9**	45.3	**323.5**	76.6
Operating and administrative expenses	**1.5**	1.4	**4.5**	3.7
Net income from Capital Incentive Programs	**24.4**	43.9	**319.0**	72.9

Three and nine months ended December 31

During the third quarter of fiscal 2022, CIP recorded a net income of $24.4 million, compared to a net income of $43.9 million for the same period last year. For the nine-month period ended December 31, 2021, CIP recorded net income of $319.0 million, compared to net income of $72.9 million for the same period last year.

The strong results for the first nine months of fiscal 2022 were mainly driven by higher net fair value appreciation on investments compared to the equivalent periods last fiscal and higher net revenue on investments from realized gains on sales of investments.

Credit Availability Program results

($ in millions)	Three months ended December 31 F2022	Three months ended December 31 F2021	Nine months ended December 31 F2022	Nine months ended December 31 F2021
Net interest income	**30.3**	22.3	**88.7**	43.0
Fee and other income	**12.6**	3.3	**31.2**	8.1
Provision for expected credit losses	**(44.0)**	(31.7)	**(152.7)**	(217.5)
Net realized gains (losses) on investments	**7.0**	0.9	**14.7**	0.9
Net change in unrealized appreciation (depreciation) of investments	**0.5**	(0.4)	**(4.6)**	(0.3)
Net gains (losses) on other financial instruments	**(0.1)**	-	**(0.1)**	-
Net foreign exchange gains (losses)	**0.1**	(1.6)	**(0.2)**	(1.9)
Income (loss) before operating and administrative expenses	**6.4**	(7.2)	**(23.0)**	(167.7)
Operating and administrative expenses	**8.7**	29.6	**32.7**	120.8
Net loss from Credit Availability Program	**(2.3)**	(36.8)	**(55.7)**	(288.5)

Three and nine months ended December 31

During the third quarter and the nine-month period of fiscal 2022, CAP recorded a net loss of $2.3 million and $55.7 million, respectively, compared to net losses of $36.8 million and $288.5 million for the same periods last year. Results in the third quarter and the nine-month period of fiscal 2022 were favourably impacted by higher net interest income of $30.3 million and $88.7 million, respectively, compared to $22.3 million and $43.0 million for the same periods last year, and higher fee and other income of $12.6 million and $31.2 million, respectively, compared to $3.3 million and $8.1 million in the third quarter and the nine-month period of fiscal 2021. For the quarter and the nine-month period ended December 31, 2021, CAP recorded a provision for expected credit losses of $44.0 million and $152.7 million, respectively, compared to a provision of $31.7 million and $217.5 million for the same periods last year. The decrease in provision for expected credit losses for the nine-month period of fiscal 2022 was mainly driven by the reversal of provision on the performing loan portfolio.

Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows

As at December 31, 2021, total BDC assets amounted to $40.4 billion, an increase of $3.2 billion from March 31, 2021, due to the $1.6 billion increase in our net loans portfolio and the $1.4 billion increase in our investments portfolio. On May 19, 2021, BDC received $385.0 million in cash proceeds from the issuance of 3,850,000 common shares, which represents a capital injection in support of the Cleantech Practice and Venture Capital Catalyst Initiative. On July 12, 2021, BDC issued 500,000 common shares, which represents a capital injection of $50.0 million in support of the Indigenous Growth Fund.

At $32.5 billion, the loans portfolio represented BDC's largest asset (gross portfolio of $33.7 billion less a $1.2 billion allowance for expected credit losses). The gross loans portfolio grew by 3.9% over the nine months ended December 31, 2021, reflecting an increase in the level of activity in the Financing and CAP Financing portfolios.

BDC's investment portfolios, which include the subordinate financing and venture capital investments portfolios, stood at $5.6 billion, compared to $4.4 billion as at March 31, 2021. The increase of $1.2 billion was mainly driven by disbursements and net fair value appreciation for VC and CIP investments. The asset-backed securities portfolio stood at $949.0 million, compared to $733.3 million as at March 31, 2021.

As at December 31, 2021, the fair value of derivative assets was $7.2 million and the fair value of derivative liabilities was $0.1 million. Net derivative fair value increased by $4.4 million since March 31, 2021.

As at December 31, 2021, BDC recorded a net defined benefit liability of $160.4 million for the registered pension plan and the other plans. This represented a decrease of $112.8 million, compared to the total net defined benefit liability as at March 31, 2021, primarily as a result of remeasurement gains recorded in the first nine months of fiscal 2022. Refer to page 9 of this report for further information on remeasurements of net defined benefit asset or liability.

BDC holds cash and cash equivalents in accordance with its Treasury Risk Policy. BDC liquidities, which ensure funds are available to meet its cash outflows, totalled $887.9 million as at December 31, 2021, compared to $800.5 million as at March 31, 2021.

For the nine-month period ended December 31, 2021, operating activities used $578.4 million, mainly to support the growth of the loans portfolio. Cash flows used by investing activities amounted to $158.1 million, reflecting net disbursements for subordinate financing, venture capital investments and asset-backed-securities, offset by proceeds on sale of venture capital investments. Financing activities provided $823.9 million in cash flow, mainly as a result of issuance of $435.0 million in common shares, net change of $1,137.8 million in borrowings, offset by a dividend payment of $735.0 million.

As at December 31, 2021, BDC funded its portfolios and liquidities with borrowings of $19.5 billion and total equity of $20.0 billion. Borrowings comprised $14.0 billion in short-term notes and $5.5 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, excluding CIP and CAP, stood at 117.6% as at December 31, 2021, above its target capital ratio, compared to 118.7% as at March 31, 2021. The decrease in the internal capital ratio was mainly driven by the $735.0 million dividend payment made in June 2021, which was partially offset by the reversal of provision for expected credit losses on performing loans and net realized gains from sales in our investment portfolio. Our regulatory capital ratio is well above the minimum regulatory capital requirements and BDC is well positioned to continue to support Canadian SMEs.

Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)

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.

Isabelle Hudon
President and Chief Executive Officer

Stefano Lucarelli, CPA, CA
Chief Financial Officer

Montreal, Canada
February 23, 2022

Consolidated Statement of Financial Position

(unaudited)

(in thousands of Canadian dollars)	Notes	**December 31, 2021**	March 31, 2021
ASSETS			
Cash and cash equivalents		**887,925**	800,515
Derivative assets		**7,191**	4,895
Loans			
Loans, gross carrying amount	6	**33,702,988**	32,431,181
Less: allowance for expected credit losses	6	**(1,184,702)**	(1,525,700)
Loans, net of allowance for expected credit losses		**32,518,286**	30,905,481
Investments			
Asset-backed securities	7	**948,951**	733,322
Subordinate financing investments	8	**1,795,668**	1,452,966
Venture capital investments	9	**3,860,063**	2,978,568
Total investments		**6,604,682**	5,164,856
Property and equipment		**69,905**	72,993
Intangible assets		**39,799**	39,841
Right-of-use-assets		**104,327**	119,038
Net defined benefit asset		**125,909**	4,796
Other assets		**41,409**	35,702
Total assets		**40,399,433**	37,148,117
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities		**153,834**	194,807
Derivative liabilities		**132**	2,278
Borrowings			
Short-term notes		**13,974,051**	13,336,374
Long-term notes		**5,533,894**	5,036,235
Total borrowings		**19,507,945**	18,372,609
Lease liabilities			
Short-term lease liabilities		**13,509**	13,328
Long-term lease liabilities		**107,327**	119,129
Total lease liabilities		**120,836**	132,457
Net defined benefit liability		**286,343**	277,981
Other liabilities		**343,193**	150,628
Total liabilities		**20,412,283**	19,130,760
Equity			
Share capital	10	**11,946,900**	11,511,900
Contributed surplus		**27,778**	27,778
Retained earnings		**7,925,853**	6,450,829
Accumulated other comprehensive income		**1,037**	13,588
Equity attributable to BDC's shareholder		**19,901,568**	18,004,095
Non-controlling interests		**85,582**	13,262
Total equity		**19,987,150**	18,017,357
Total liabilities and equity		**40,399,433**	37,148,117

Guarantees (Note 12)
Commitments (Notes 6, 7, 8, and 9)

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

Consolidated Statement of Income

(unaudited)

(in thousands of Canadian dollars)	Three months ended December 31 2021	Three months ended December 31 2020	Nine months ended on December 31 2021	Nine months ended on December 31 2020
Interest income	**427,464**	412,242	**1,263,121**	1,199,587
Interest expense	**25,021**	21,926	**75,264**	71,407
Net interest income	**402,443**	390,316	**1,187,857**	1,128,180
Net realized gains (losses) on investments	**110,075**	32,949	**461,350**	34,914
Revenue from Advisory Services	**7,835**	5,397	**21,291**	13,681
Fee and other income	**30,336**	14,134	**78,396**	43,983
Net revenue	**550,689**	442,796	**1,748,894**	1,220,758
Provision for expected credit losses	**3,184**	(34,598)	**78,808**	(600,695)
Net change in unrealized appreciation (depreciation) of investments	**97,574**	167,284	**831,307**	307,549
Net foreign exchange gains (losses)	**(14,753)**	(35,222)	**5,468**	(70,759)
Net gains (losses) on other financial instruments	**(2)**	362	**577**	855
Income before operating and administrative expenses	**636,692**	540,622	**2,665,054**	857,708
Salaries and benefits	**119,323**	108,441	**350,548**	328,818
Premises and equipment	**10,802**	10,713	**30,928**	31,364
Other expenses	**47,016**	43,405	**119,295**	126,024
Operating and administrative expenses	**177,141**	162,559	**500,771**	486,206
Net income	**459,551**	378,063	**2,164,283**	371,502
Net income (loss) attributable to:				
BDC's shareholder	**412,133**	379,668	**2,088,323**	370,213
Non-controlling interests	**47,418**	(1,605)	**75,960**	1,289
Net income	**459,551**	378,063	**2,164,283**	371,502

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

Consolidated Statement of Comprehensive Income (Loss)

(unaudited)

(in thousands of Canadian dollars)	Three months ended December 31 2021	Three months ended December 31 2020	Nine months ended on December 31 2021	Nine months ended on December 31 2020
Net income	**459,551**	378,063	**2,164,283**	371,502
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on fair value through other comprehensive income assets	**(6,607)**	182	**(11,934)**	6,835
Net change in unrealized gains (losses) on cash flow hedges	**(82)**	(340)	**(617)**	(931)
Total items that may be reclassified subsequently to net income	**(6,689)**	(158)	**(12,551)**	5,904
Items that will not be reclassified to net income				
Remeasurements of net defined benefit asset or liability	**5,768**	(19,549)	**121,701**	(432,461)
Other comprehensive income (loss)	**(921)**	(19,707)	**109,150**	(426,557)
Total comprehensive income (loss)	**458,630**	358,356	**2,273,433**	(55,055)
Total comprehensive income (loss) attributable to:				
BDC's shareholder	**411,212**	359,961	**2,197,473**	(56,344)
Non-controlling interests	**47,418**	(1,605)	**75,960**	1,289
Total comprehensive income (loss)	**458,630**	358,356	**2,273,433**	(55,055)

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): FVOCI assets [1]	Accumulated other comprehensive income (loss): Cash flow hedges	Accumulated other comprehensive income (loss): Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at September 30, 2021	**11,946,900**	**27,778**	**7,507,952**	**6,035**	**1,691**	**7,726**	**19,490,356**	**38,131**	**19,528,487**
Total comprehensive income (loss)									
Net income			**412,133**				**412,133**	**47,418**	**459,551**
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on fair value through other comprehensive income assets				**(6,607)**		**(6,607)**	**(6,607)**		**(6,607)**
Net change in unrealized gains (losses) on cash flow hedges					**(82)**	**(82)**	**(82)**		**(82)**
Remeasurements of net defined benefit asset or liability			**5,768**				**5,768**		**5,768**
Other comprehensive income (loss)	**-**	**-**	**5,768**	**(6,607)**	**(82)**	**(6,689)**	**(921)**	**-**	**(921)**
Total comprehensive income (loss)	**-**	**-**	**417,901**	**(6,607)**	**(82)**	**(6,689)**	**411,212**	**47,418**	**458,630**
Capital injections from non-controlling interests								**33**	**33**
Transactions with owner, recorded directly in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**33**	**33**
Balance as at December 31, 2021	**11,946,900**	**27,778**	**7,925,853**	**(572)**	**1,609**	**1,037**	**19,901,568**	**85,582**	**19,987,150**

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss): FVOCI assets [1]	Accumulated other comprehensive income (loss): Cash flow hedges	Accumulated other comprehensive income (loss): Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at September 30, 2020	11,511,900	27,778	4,423,852	11,919	2,906	14,825	15,978,355	13,900	15,992,255
Total comprehensive income									
Net income			379,668				379,668	(1,605)	378,063
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on fair value through other comprehensive income assets				182		182	182		182
Net change in unrealized gains (losses) on cash flow hedges					(340)	(340)	(340)		(340)
Remeasurements of net defined benefit asset or liability			(19,549)				(19,549)		(19,549)
Other comprehensive income (loss)	-	-	(19,549)	182	(340)	(158)	(19,707)	-	(19,707)
Total comprehensive income	-	-	360,119	182	(340)	(158)	359,961	(1,605)	358,356
Capital injections from non-controlling interests								41	41
Transactions with owner, recorded directly in equity	-	-	-	-	-	-	-	41	41
Balance as at December 31, 2020	11,511,900	27,778	4,783,971	12,101	2,566	14,667	16,338,316	12,336	16,350,652

[1] Fair value through other comprehensive income assets

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

Consolidated Statement of Changes in Equity

For the nine months ended December 31
(unaudited)

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) FVOCI assets [(1)]	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at March 31, 2021	11,511,900	27,778	6,450,829	11,362	2,226	13,588	18,004,095	13,262	18,017,357
Total comprehensive income (loss)									
Net income			2,088,323				2,088,323	75,960	2,164,283
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on fair value through other comprehensive income assets				(11,934)		(11,934)	(11,934)		(11,934)
Net change in unrealized gains (losses) on cash flow hedges					(617)	(617)	(617)		(617)
Remeasurements of net defined benefit asset or liability			121,701				121,701		121,701
Other comprehensive income (loss)	-	-	121,701	(11,934)	(617)	(12,551)	109,150	-	109,150
Total comprehensive income (loss)	-	-	2,210,024	(11,934)	(617)	(12,551)	2,197,473	75,960	2,273,433
Dividends on common shares			(735,000)				(735,000)		(735,000)
Distributions to non-controlling interests								(4,981)	(4,981)
Capital injections from non-controlling interests								1,341	1,341
Issuance of common shares	435,000						435,000		435,000
Transactions with owner, recorded directly in equity	435,000	-	(735,000)	-	-	-	(300,000)	(3,640)	(303,640)
Balance as at December 31, 2021	11,946,900	27,778	7,925,853	(572)	1,609	1,037	19,901,568	85,582	19,987,150

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

(1) Fair value through other comprehensive income assets
The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

(unaudited)

(in thousands of Canadian dollars)	Three months ended December 31 2021	Three months ended December 31 2020	Nine months ended December 31 2021	Nine months ended December 31 2020
Operating activities				
Net income	**459,551**	378,063	**2,164,283**	371,502
Adjustments to determine net cash flows				
Interest income	**(427,464)**	(412,242)	**(1,263,121)**	(1,199,587)
Interest expense	**24,630**	21,411	**73,937**	69,825
Interest on lease liabilities	**391**	515	**1,327**	1,582
Net realized losses (gains) on investments	**(110,075)**	(32,949)	**(461,350)**	(34,914)
Provision for expected credit losses	**(3,184)**	34,598	**(78,808)**	600,695
Net change in unrealized depreciation (appreciation) of investments	**(97,574)**	(167,284)	**(831,307)**	(307,549)
Net unrealized foreign exchange losses (gains)	**7,476**	46,809	**(21,590)**	109,269
Net unrealized losses (gains) on other financial instruments	**(23)**	(21)	**(66)**	77
Defined benefits funding below (in excess of) amounts expensed	**8,171**	9,206	**8,950**	16,585
Depreciation of property and equipment, and amortization of intangible assets	**4,935**	5,770	**15,568**	16,363
Depreciation of right-of-use assets	**3,398**	3,806	**10,448**	11,574
Other	**(14,010)**	(10,336)	**(14,698)**	(25,095)
Interest expense paid	**(24,324)**	(19,663)	**(73,889)**	(71,797)
Interest income received	**427,132**	405,763	**1,235,702**	1,164,914
Changes in operating assets and liabilities				
Net change in loans	**(502,163)**	(653,963)	**(1,307,570)**	(3,687,361)
Net change in accounts payable and accrued liabilities	**40,218**	(35,934)	**(40,973)**	14,162
Net change in other assets and other liabilities	**17,085**	(73)	**4,761**	(23,033)
Net cash flows provided (used) by operating activities	**(185,830)**	(426,524)	**(578,396)**	(2,972,788)
Investing activities				
Disbursements for asset-backed securities	**(196,339)**	(112,164)	**(531,940)**	(206,966)
Repayments and proceeds on sale of asset-backed securities	**105,381**	86,459	**304,304**	250,024
Disbursements for subordinate financing investments	**(185,554)**	(90,659)	**(505,896)**	(277,999)
Repayments of subordinate financing investments	**118,353**	128,702	**435,319**	230,358
Disbursements for venture capital investments	**(121,101)**	(145,362)	**(348,206)**	(392,783)
Proceeds on sale of venture capital investments	**115,374**	49,887	**500,792**	111,499
Acquisition of property and equipment	**(1,964)**	(6,281)	**(6,156)**	(12,837)
Acquisition of intangible assets	**(2,939)**	(1,404)	**(6,282)**	(6,849)
Net cash flows provided (used) by investing activities	**(168,789)**	(90,822)	**(158,065)**	(305,553)
Financing activities				
Net change in short-term notes	**100,000**	(452,000)	**638,000**	(5,793,855)
Issue of long-term notes	**349,000**	170,000	**856,000**	665,000
Repayment of long-term notes	**(45,000)**	-	**(356,193)**	-
Distributions to non-controlling interests	**-**	-	**(4,981)**	(144)
Capital injections from non-controlling interests	**33**	41	**1,341**	52
Issuance of common shares	**-**	-	**435,000**	7,503,000
Dividends paid on common shares	**-**	-	**(735,000)**	-
Payment of lease liabilities	**(3,857)**	(4,149)	**(10,296)**	(10,532)
Net cash flows provided (used) by financing activities	**400,176**	(286,108)	**823,871**	2,363,521
Net increase (decrease) in cash and cash equivalents	**45,557**	(803,454)	**87,410**	(914,820)
Cash and cash equivalents at beginning of period	**842,368**	1,710,031	**800,515**	1,821,397
Cash and cash equivalents at end of period	**887,925**	906,577	**887,925**	906,577

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

Notes to the Consolidated Financial Statements

(unaudited in thousands of Canadian dollars)

1.
BDC general description

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

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

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

2.
Basis of preparation

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

BDC's condensed quarterly Consolidated Financial Statements follow the same basis of preparation as our audited Consolidated Financial Statements for the year ended March 31, 2021. They should be read in conjunction with the audited Consolidated Financial Statements for the year ended March 31, 2021 and the accompanying notes as set out on pages 68 to 138 of BDC's 2021 Annual Report.

The condensed quarterly Consolidated Financial Statements have also been prepared in accordance with the accounting policies BDC expects to use in its annual Consolidated Financial Statements for the year ending March 31, 2022. 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 23, 2022.

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, 2021. 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 2021 Annual Report and the accompanying notes, as set out on pages 68 to 138 of our 2021 Annual Report.

4.
Significant accounting judgements, estimates and assumptions

The preparation of the condensed quarterly Consolidated Financial Statements in accordance with 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.

For information about the significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the condensed quarterly Consolidated Financial Statements, refer to page 83 of our 2021 Annual Report.

The global pandemic related to an outbreak of COVID-19 has cast additional uncertainty on the assumptions used by management in making its judgments and estimates. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is difficult to reliably estimate the length and severity of these developments and the impact on the financial results and condition of BDC in future periods. Given that the full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on the global economy and BDC's business is uncertain and not predictable at this time, there is a higher level of uncertainty with respect to management's judgments and estimates.

5.

Fair value of financial instruments

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

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

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

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

	Fair value measurements using			**December 31, 2021**
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Assets				
Derivative assets	**-**	**7,191**	**-**	**7,191**
Asset-backed securities	**-**	**948,951**	**-**	**948,951**
Subordinate financing investments	**196,046**	**-**	**1,599,622**	**1,795,668**
Venture capital investments	**177,539**	**-**	**3,682,524**	**3,860,063**
	373,585	**956,142**	**5,282,146**	**6,611,873**
Liabilities				
Derivative liabilities	**-**	**132**	**-**	**132**
Long-term notes designated as fair value through profit or loss	**-**	**38,641**	**-**	**38,641**
	-	**38,773**	**-**	**38,773**

	Fair value measurements using			March 31, 2021
	Level 1	Level 2	Level 3	Total fair value
Assets				
Derivative assets	-	4,895	-	4,895
Asset-backed securities	-	733,322	-	733,322
Subordinate financing investments	88,764	-	1,364,202	1,452,966
Venture capital investments	62,955	-	2,915,613	2,978,568
	151,719	738,217	4,279,815	5,169,751
Liabilities				
Derivative liabilities	-	2,278	-	2,278
Long-term notes designated as fair value through profit or loss	-	127,662	-	127,662
	-	129,940	-	129,940

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

	Subordinate financing investments	**Venture capital investments**	**Total**
Fair value as at April 1, 2021	**1,364,202**	**2,915,613**	**4,279,815**
Net realized gains (losses) on investments	**97,490**	**298,321**	**395,811**
Net change in unrealized appreciation (depreciation) of investments	**59,542**	**715,046**	**774,588**
Net unrealized foreign exchange gains (losses) on investments	**-**	**3,382**	**3,382**
Disbursements for investments	**499,564**	**347,572**	**847,136**
Repayments of investments and other	**(366,635)**	**(482,077)**	**(848,712)**
Transfers from level 3 to level 1	**(54,541)**	**(115,333)**	**(169,874)**
Fair value as at December 31, 2021	**1,599,622**	**3,682,524**	**5,282,146**

	Subordinate financing investments	Venture capital investments	Total
Fair value as at April 1, 2020	1,233,427	1,676,822	2,910,249
Net realized gains (losses) on investments	22,070	136,580	158,650
Net change in unrealized appreciation (depreciation) of investments	88,248	950,963	1,039,211
Net unrealized foreign exchange gains (losses) on investments	-	(69,809)	(69,809)
Disbursements for investments	370,729	512,951	883,680
Repayments of investments and other	(350,272)	(270,293)	(620,565)
Transfers from level 3 to level 1	-	(21,601)	(21,601)
Fair value as at March 31, 2021	1,364,202	2,915,613	4,279,815

6.

Loans

The following tables summarize loans outstanding by contractual maturity date.

	Within 1 year	1 to 5 years	Over 5 years	Total gross carrying amount	Allowance for expected credit losses	Total net carrying amount
Performing	**296,288**	**5,857,277**	**26,383,062**	**32,536,627**	**(826,300)**	**31,710,327**
Impaired	**54,781**	**161,656**	**949,924**	**1,166,361**	**(358,402)**	**807,959**
Loans as at December 31, 2021	**351,069**	**6,018,933**	**27,332,986**	**33,702,988**	**(1,184,702)**	**32,518,286**

	Within 1 year	1 to 5 years	Over 5 years	Total gross carrying amount	Allowance for expected credit losses	Total net carrying amount
Performing	419,926	5,669,005	25,192,018	31,280,949	(1,111,410)	30,169,539
Impaired	28,146	189,580	932,506	1,150,232	(414,290)	735,942
Loans as at March 31, 2021	448,072	5,858,585	26,124,524	32,431,181	(1,525,700)	30,905,481

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

	Allowance for expected credit losses			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at April 1, 2021	**395,895**	**715,515**	**414,290**	**1,525,700**
Provision for expected credit losses				
Transfer to Stage 1[(1)]	**211,292**	**(208,778)**	**(2,514)**	**-**
Transfer to Stage 2[(1)]	**(127,007)**	**171,874**	**(44,867)**	**-**
Transfer to Stage 3[(1)]	**(1,026)**	**(44,139)**	**45,165**	**-**
Net remeasurement of allowance for expected credit losses[(2)]	**(297,818)**	**(115,129)**	**38,139**	**(374,808)**
Financial assets that have been fully repaid	**(33,262)**	**(47,134)**	**(35,733)**	**(116,129)**
New financial assets originated	**178,931**	**26,924**	**-**	**205,855**
Write-offs	**-**	**-**	**(79,629)**	**(79,629)**
Recoveries	**-**	**-**	**23,395**	**23,395**
Foreign exchange and other movements	**184**	**(22)**	**156**	**318**
Balance as at December 31, 2021	**327,189**	**499,111**	**358,402**	**1,184,702**

	Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2020	270,249	514,256	414,668	1,199,173
Provision for expected credit losses				
Transfer to Stage 1[(1)]	264,681	(264,139)	(542)	-
Transfer to Stage 2[(1)]	(293,043)	325,317	(32,274)	-
Transfer to Stage 3[(1)]	(1,953)	(68,231)	70,184	-
Net remeasurement of allowance for expected credit losses[(2)]	(107,430)	223,485	126,439	242,494
Financial assets that have been fully repaid	(37,459)	(52,464)	(54,329)	(144,252)
New financial assets originated	328,420	72,241	-	400,661
Write-offs	-	-	(129,142)	(129,142)
Recoveries	-	-	21,419	21,419
Foreign exchange and other movements	(27,570)	(34,950)	(2,133)	(64,653)
Balance as at March 31, 2021	395,895	715,515	414,290	1,525,700

(1) Provides the cumulative change from the previous month's allowance for expected credit losses due to transfers between stages prior to remeasurements.

(2) Includes the net remeasurement of the allowance following a transfer between stages, changes in gross carrying amounts, changes in credit risk of existing loans and changes in model inputs and assumptions, including forward-looking macroeconomic variables.

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

Undisbursed amounts of authorized loans were $3,914,275 as at December 31, 2021 ($1,091,721 at fixed rates; $2,822,554 at floating rates). The weighted average effective interest rate was 3.88% on loan commitments (3.89% as at March 31, 2021).

		December 31, 2021		March 31, 2021
Geographic distribution	**Outstanding**	**Commitments**	Outstanding	Commitments
Newfoundland and Labrador	**852,872**	**31,558**	869,334	41,447
Prince Edward Island	**82,026**	**2,683**	75,018	7,742
Nova Scotia	**688,419**	**40,606**	724,909	35,060
New Brunswick	**519,025**	**41,911**	520,292	40,245
Quebec	**10,585,762**	**1,415,026**	10,253,238	928,116
Ontario	**9,312,824**	**941,597**	9,038,576	821,886
Manitoba	**914,123**	**121,230**	861,037	81,165
Saskatchewan	**908,696**	**97,312**	865,988	65,576
Alberta	**4,808,924**	**585,119**	4,666,837	498,183
British Columbia	**4,829,950**	**622,552**	4,363,207	528,237
Yukon	**112,034**	**6,190**	115,611	1,155
Northwest Territories and Nunavut	**88,333**	**8,491**	77,134	16,227
Total loans outstanding[1]	**33,702,988**	**3,914,275**	32,431,181	3,065,039

		December 31, 2021		March 31, 2021
Industry sector	**Outstanding**	**Commitments**	Outstanding	Commitments
Manufacturing	**7,203,958**	**938,393**	7,047,791	788,282
Wholesale and retail trade	**6,579,543**	**803,618**	6,221,719	570,210
Service industries	**5,201,655**	**445,452**	4,976,814	460,518
Tourism	**3,672,561**	**177,991**	3,742,182	156,433
Commercial properties	**3,455,339**	**324,083**	3,290,244	151,264
Construction	**3,043,939**	**374,544**	2,843,645	356,322
Transportation and storage	**2,040,448**	**256,638**	1,889,402	206,829
Resources	**1,394,780**	**383,974**	1,340,224	231,612
Other	**1,110,765**	**209,582**	1,079,160	143,569
Total loans outstanding[1]	**33,702,988**	**3,914,275**	32,431,181	3,065,039

[1] Loan commitments included $3,835,319 in the Financing segment and $78,956 in the Credit Availability Program segment as at December 31, 2021 ($2,870,540, and $194,499 respectively, as at March 31, 2021).

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

	Allowance for expected credit losses on commitments			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at April 1, 2021	**57,007**	**24,161**	**-**	**81,168**
Provision for expected credit losses				
Transfer to Stage 1(1)	**5,765**	**(5,765)**	**-**	**-**
Transfer to Stage 2(1)	**(8,087)**	**8,087**	**-**	**-**
Net remeasurement of the allowance for expected credit losses(2)	**(14,452)**	**4,858**	**-**	**(9,594)**
Net increase (decrease) in commitments	**16,592**	**(22,650)**	**-**	**(6,058)**
Foreign exchange and other movements	**(109)**	**(118)**	**-**	**(227)**
Balance as at December 31, 2021	**56,716**	**8,573**	**-**	**65,289**

	Allowance for expected credit losses on commitments			
	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2020	41,778	25,281	-	67,059
Provision for expected credit losses				
Transfer to Stage 1(1)	13,817	(13,817)	-	-
Transfer to Stage 2(1)	(35,229)	35,229	-	-
Net remeasurement of the allowance for expected credit losses(2)	11,911	21,834	-	33,745
Net increase (decrease) in commitments	26,381	(43,124)	-	(16,743)
Foreign exchange and other movements	(1,651)	(1,242)	-	(2,893)
Balance as at March 31, 2021	57,007	24,161	-	81,168

(1) Provides the cumulative change from the previous month's allowance for expected credit losses on commitments due to transfers between stages prior to remeasurements.

(2) Includes the net remeasurement of the allowance following a transfer between stages, changes in commitment amounts, changes in credit risk and changes in model inputs and assumptions, including forward-looking macroeconomic variables.

7.

Asset-backed securities

The following table summarizes asset-backed securities ("ABS") by classification of financial instruments. No ABS were impaired as at December 31, 2021 or March 31, 2021. No allowances for expected credit losses were recorded for disbursed and undisbursed ABS at fair value through other comprehensive income as at December 31, 2021 or March 31, 2021.

	December 31, 2021	March 31, 2021
Fair value through other comprehensive income		
Principal amount	**936,859**	711,884
Cumulative fair value appreciation (depreciation)	**(571)**	11,362
Carrying value	**936,288**	723,246
Yield	**1.90%**	2.27%
Fair value through profit or loss		
Principal amount	**12,565**	9,863
Cumulative fair value appreciation (depreciation)	**98**	213
Carrying value	**12,663**	10,076
Yield	**6.83%**	7.01%
Asset-backed securities	**948,951**	733,322

Committed amounts of authorized asset-backed securities were $496,401 as at December 31, 2021 ($624,037 as at March 31, 2021).

8.
Subordinate financing investments

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

	Within 1 year	1 to 5 years	Over 5 years	Total cost	Total fair value
As at December 31, 2021	**155,548**	**1,030,266**	**453,733**	**1,639,547**	**1,795,668**
As at March 31, 2021	150,441	974,871	320,979	1,446,291	1,452,966

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

Concentrations of subordinate financing investments and commitments

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

Undisbursed amounts of authorized investments totalled $204,877 as at December 31, 2021 ($67,856 at fixed rates; $137,021 at floating rates). The weighted average effective interest rate was 8.34% on subordinate financing commitments (8.5% as at March 31, 2021), excluding non-interest return.

			December 31, 2021			March 31, 2021
Geographic distribution	**Fair value**	**Cost**	**Commitments**	Fair value	Cost	Commitments
Newfoundland and Labrador	**19,700**	**26,213**	**7,375**	16,371	21,563	7,525
Prince Edward Island	**6,347**	**6,554**	**-**	9,669	10,300	-
Nova Scotia	**22,049**	**22,954**	**10,100**	46,832	27,049	4,000
New Brunswick	**17,310**	**17,359**	**-**	15,979	15,657	-
Quebec	**684,148**	**526,944**	**40,629**	489,770	450,753	26,656
Ontario	**574,898**	**583,286**	**82,071**	464,186	503,659	37,290
Manitoba	**4,906**	**6,959**	**-**	6,801	8,532	-
Saskatchewan	**56,330**	**54,067**	**1,150**	47,842	53,696	2,100
Alberta	**210,453**	**238,271**	**27,050**	158,724	193,422	27,550
British Columbia	**198,080**	**155,488**	**36,502**	194,661	159,453	7,750
Yukon	**-**	**-**	**-**	225	224	-
Northwest Territories and Nunavut	**1,447**	**1,452**	**-**	1,906	1,983	-
Subordinate financing investments (1)	**1,795,668**	**1,639,547**	**204,877**	1,452,966	1,446,291	112,871

			December 31, 2021			March 31, 2021
Industry sector	**Fair value**	**Cost**	**Commitments**	Fair value	Cost	Commitments
Manufacturing	**609,490**	**524,689**	**37,764**	478,654	490,121	17,723
Service industries	**521,928**	**470,369**	**33,569**	411,798	389,167	37,145
Wholesale and retail trade	**214,294**	**198,562**	**47,829**	190,786	177,140	10,750
Resources	**173,448**	**190,055**	**19,859**	128,252	142,449	26,300
Information industries	**125,397**	**126,026**	**56,431**	123,367	118,257	10,603
Construction	**51,109**	**53,630**	**9,125**	45,822	48,163	7,650
Transportation and storage	**49,923**	**49,829**	**300**	36,751	47,578	2,700
Educational services	**12,441**	**12,315**	**-**	12,638	12,417	-
Tourism	**6,419**	**7,734**	**-**	6,288	9,980	-
Other	**31,219**	**6,338**	**-**	18,610	11,019	-
Subordinate financing investments (1)	**1,795,668**	**1,639,547**	**204,877**	1,452,966	1,446,291	112,871

(1) Subordinate financing commitments included $6,552 in the Financing segment, $136,329 in the Growth & Transition Capital segment, $22,106 in the Venture Capital segment, $38,990 in the Capital Incentive Programs segment and $900 in the Credit Availability Program segment as at December 31, 2021 ($3,455, $56,251, $5,557, $42,783 and $4,825, respectively, as at March 31, 2021).

9.

Venture capital investments

BDC maintains a high-risk portfolio of venture capital investments. All venture capital investments, which are held for a longer term, are non-current assets.

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

			December 31, 2021			March 31, 2021
Investment type	**Fair value**	**Cost**	**Commitments**	Fair value	Cost	Commitments
Direct investments	**1,818,135**	**936,174**	**47,222**	1,397,978	851,925	49,240
Indirect investments in funds [(1)]	**2,041,928**	**1,056,966**	**875,949**	1,580,590	985,162	876,138
Venture capital investments [(2)]	**3,860,063**	**1,993,140**	**923,171**	2,978,568	1,837,087	925,378

(1) As at December 31, 2021, BDC has invested in 112 funds through its Venture Capital segment and 24 funds through its Capital Incentive Program segment (100 and 24 funds, respectively, as at March 31, 2021).

(2) Venture Capital commitments included $564,953 in the Venture Capital segment, $354,645 in the Capital Incentive Programs segment, and $3,572 in the Credit Availability Program segment as at December 31, 2021 ($473,575, $432,903, and $18,900, respectively, as at March 31, 2021).

Concentrations of total venture capital investments and commitments

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

			December 31, 2021			March 31, 2021
Industry sector	**Fair value**	**Cost**	**Commitments**	Fair value	Cost	Commitments
Information technology	**946,938**	**447,486**	**32,638**	835,203	418,072	23,830
Industrial	**210,017**	**62,080**	**-**	42,238	40,013	2,400
Communications	**183,878**	**122,784**	**5,110**	141,868	100,473	10,031
Biotechnology and pharmacology	**65,405**	**61,480**	**4,232**	63,498	58,480	4,232
Electronics	**53,623**	**85,847**	**3,800**	75,285	89,115	8,000
Medical and health	**51,273**	**53,012**	**945**	58,198	45,062	250
Energy	**29,087**	**20,582**	**497**	29,209	20,582	497
Other	**277,914**	**82,903**	**-**	152,479	80,128	-
Total direct investments	**1,818,135**	**936,174**	**47,222**	1,397,978	851,925	49,240

10.

Share capital

An unlimited number of common shares, having a par value of $100 each, is authorized. As at December 31, 2021, there were 119,469,000 common shares outstanding (115,119,000 as at March 31, 2021).

On May 19, 2021, BDC issued 3,850,000 common shares for cash proceeds of $385 million, which represents a capital injection in support of the Cleantech Practice and Venture Capital Catalyst Initiative.

On July 12, 2021, BDC issued 500,000 common shares, which represents a capital injection of $50 million in support of the Indigenous Growth Fund.

Statutory limitations

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

The amount of paid-in-capital, together with any contributed surplus and any proceeds that have been prescribed as equity, must not at any time exceed $20.0 billion per the *Business Development Bank of Canada Act, 1995*.

During the nine months ended December 31, 2021 and the year ended March 31, 2021, 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.

Available capital

Available capital is composed of equity attributable to BDC's shareholder (share capital, contributed surplus and retained earnings) and adjustments aligned with industry best practices.

Required capital

BDC employs rigorous models to assess demand for capital arising from credit and investments, operational, business and market risk. Economic capital is a measure of risk used to determine the amount of capital required to ensure a financial institution's solvency given its risk profile.

11.
Segmented information

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

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

- Financing: provides secured, partially secured and unsecured loans with a focus on small and medium-sized enterprises across Canada. It also purchases investments in asset-backed securities through the Funding Platform for Independent Lenders (F-PIL). These securities are backed by vehicle and equipment loans and leases, as well as dealer floor plan loans.
- Advisory Services: offer advisory services through a variety of solutions for both smaller and larger companies, supports high-impact firms, provides free online educational content and other services related to business activities.
- Growth & Transition Capital provides subordinate financing by way of flexible debt, with or without convertible features, and equity-type financing to support the growth and transition projects of SMEs.
- Venture Capital: includes investments in Venture capital (VC), Growth Equity (GE) and Intellectual Property (IP). Venture capital segment provides investments to cover every stage of a technology-based company's development cycle, from seed funding to expansion. Investments in VC are focused on fast-growing companies having promising positions in their respective marketplaces and strong growth potential. BDC also makes indirect investments via venture capital investment funds. GE are equity investments to support the growth of high-potential companies across Canada. With the first Growth Equity Fund reaching its total capital commitment target of $250.0 million, BDC will launch a follow-on fund, the Growth Equity Fund II, which will maintain a focus on mid-size business and target a broader range of companies. Through its IP Fund, BDC launched a $160.0 million Fund that provides more targeted financing to companies that are rich in intellectual property. It focusses on such sectors as advanced manufacturing, media and telecom, med-tech and digital health and information technology. Companies will be able to access customized, patient capital that recognizes IP as a core asset that must be valued and protected.
- Capital Incentive Programs (previously 2 separate segments, Venture Capital Incentive Programs and Cleantech Practice): includes Venture Capital Action Plan (VCAP), Venture Capital Catalyst Initiative (VCCI), Cleantech Practice and Indigenous Growth Fund (IGF). VCAP is a $390.0 million federal government initiative to increase private sector venture capital financing for high-potential, innovative Canadian businesses. VCAP invests primarily in early-stage and mid-stage venture capital funds, and directly in companies across Canada. It supports the creation of large private sector-led funds of funds and also assists existing high-performing funds in partnership with institutional investors, corporate strategic investors and interested provinces. VCCI is also a government-sponsored initiative whereby $450.0 million is made available through BDC over three years to provide late-stage venture capital to support the growth of innovative start-ups. Through a $600.0 million envelope entrusted by the federal government, Cleantech Practice provides subordinate financing and venture capital investments to promising clean technology firms to help build globally competitive and commercially sustainable Canadian cleantech firms.
- Credit Availability Program: with the support of our sole shareholder, the Government of Canada, we launched a series of measures to help Canadian businesses during the COVID-19 crisis. These measures are combined under CAP to distinguish government-led initiatives from our core activities. The initiatives extend eligibility criteria to ensure we are meeting the urgent needs of as many viable businesses as possible. They include the Business Credit Availability Program, which is delivered in collaboration with Canadian banks and credit unions, Highly Affected Sectors Credit Availability Program under which, financial institutions provide loans up to $1 million, 100% guaranteed by BDC, and measures delivered directly by BDC.

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

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

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

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

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

Three months ended December 31, 2021

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Capital Incentive Programs	Credit Availability Program
Interest income	427,464	370,520	-	22,843	212	2,746	31,143
Interest expense	25,021	22,915	-	1,225	5	-	876
Net interest income	402,443	347,605	-	21,618	207	2,746	30,267
Net realized gains (losses) on investments	110,075	(346)	-	(1,946)	111,636	(6,246)	6,977
Revenue from Advisory Services	7,835	-	7,835	-	-	-	-
Fee and other income	30,336	6,304	-	6,203	4,483	689	12,657
Net revenue	550,689	353,563	7,835	25,875	116,326	(2,811)	49,901
Provision for expected credit losses	3,184	47,139	-	-	-	-	(43,955)
Net change in unrealized appreciation (depreciation) of investments	97,574	(38)	-	20,081	47,799	29,200	532
Net foreign exchange gains (losses)	(14,753)	(1,666)	-	105	(12,706)	(498)	12
Net gains (losses) on other financial instruments	(2)	104	-	-	-	-	(106)
Income (loss) before operating and administrative expenses	636,692	399,102	7,835	46,061	151,419	25,891	6,384
Salaries and benefits	119,323	84,265	11,636	8,441	7,786	1,197	5,998
Premises and equipment	10,802	8,208	872	488	636	88	510
Other expenses	47,016	37,003	4,789	897	1,885	254	2,188
Operating and administrative expenses	177,141	129,476	17,297	9,826	10,307	1,539	8,696
Net income (loss)	459,551	269,626	(9,462)	36,235	141,112	24,352	(2,312)
Net income (loss) attributable to:							
BDC's shareholder	412,133	269,626	(9,462)	25,192	104,737	24,352	(2,312)
Non-controlling interests	47,418	-	-	11,043	36,375	-	-
Net income (loss)	459,551	269,626	(9,462)	36,235	141,112	24,352	(2,312)

Three months ended December 31, 2020

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

Consolidated Financial Statements

Nine months ended December 31, 2021

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Capital Incentive Programs	Credit Availability Program
Interest income	1,263,121	1,100,080	-	64,353	424	7,114	91,150
Interest expense	75,264	69,167	-	3,650	11	-	2,436
Net interest income	1,187,857	1,030,913	-	60,703	413	7,114	88,714
Net realized gains (losses) on investments	461,350	(568)	-	16,510	365,451	65,292	14,665
Revenue from Advisory Services	21,291	-	21,291	-	-	-	-
Fee and other income	78,396	18,395	9	16,685	9,953	2,100	31,254
Net revenue	1,748,894	1,048,740	21,300	93,898	375,817	74,506	134,633
Provision for expected credit losses	78,808	231,555	-	-	-	-	(152,747)
Net change in unrealized appreciation (depreciation) of investments	831,307	(4,067)	-	54,429	536,975	248,587	(4,617)
Net foreign exchange gains (losses)	5,468	(237)	-	363	5,122	399	(179)
Net gains (losses) on other financial instruments	577	683	-	-	-	-	(106)
Income (loss) before operating and administrative expenses	2,665,054	1,276,674	21,300	148,690	917,914	323,492	(23,016)
Salaries and benefits	350,548	240,101	36,025	23,763	23,163	3,471	24,025
Premises and equipment	30,928	22,823	2,502	1,413	1,828	379	1,983
Other expenses	119,295	90,391	12,413	2,615	6,532	650	6,694
Operating and administrative expenses	500,771	353,315	50,940	27,791	31,523	4,500	32,702
Net income (loss)	2,164,283	923,359	(29,640)	120,899	886,391	318,992	(55,718)
Net income (loss) attributable to:							
BDC's shareholder	2,088,323	923,359	(29,640)	104,777	826,553	318,992	(55,718)
Non-controlling interests	75,960	-	-	16,122	59,838	-	-
Net income (loss)	2,164,283	923,359	(29,640)	120,899	886,391	318,992	(55,718)
Business segment portfolio as at December 31, 2021							
Loans, net of allowance for expected credit losses	32,518,286	29,596,722	-	-	-	-	2,921,564
Asset-backed securities	948,951	948,951	-	-	-	-	-
Subordinate financing investments	1,795,668	12,563	-	1,061,313	294,615	412,073	15,104
Venture capital investments	3,860,063	-	-	-	2,753,991	950,645	155,427
Total portfolio	39,122,968	30,558,236	-	1,061,313	3,048,606	1,362,718	3,092,095

Nine months ended December 31, 2020

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

12.

Guarantees

BDC issues “loan guarantees and portfolio guarantees” (guarantees) to support businesses. Those guarantees represent BDC’s obligation to make payments to third parties if clients are unable to meet their contractual commitments. Collateral requirements for guarantees are consistent with BDC collateral requirements for loans. The fee income earned is calculated on a straight-line basis over the life of the instrument and recognized in fee and other income in the Consolidated Statement of Income. The maximum contractual obligation and actual exposure under the guarantees totalled $3.0 billion as at December 31, 2021 ($294.6 million as at March 31, 2021) and the existing terms expire within 131 months (within 120 months as at March 31, 2021).

These financial guarantees were initially recognized at fair value on the date the guarantees were given. The fair value was considered nil, as all guarantees were agreed to on arm’s-length terms and no initial fees were received. In addition, no receivable for the future expected fees was recognized. Subsequent recognition of a liability will only occur when it becomes more likely than not that a client will not meet its contractual commitments. As at December 31, 2021 and March 31, 2021, there were no liabilities recognized in BDC’s Consolidated Statement of Financial Position related to these guarantees.

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

				December 31, 2021
Allowance for expected credit losses on loan guarantees	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2021	**12,659**	**12,800**	**-**	**25,459**
Provision for expected credit losses				
Transfer to Stage 1[1]	**41,708**	**(41,552)**	**(156)**	**-**
Transfer to Stage 2[1]	**(22,675)**	**22,675**	**-**	**-**
Transfer to Stage 3[1]	**(39)**	**(2,709)**	**2,748**	**-**
Net remeasurement of the allowance for expected credit losses[2]	**(47,853)**	**44,730**	**1,799**	**(1,324)**
Net increase (decrease) in guarantees	**107,774**	**91,380**	**145**	**199,299**
Balance as at December 31, 2021	**91,574**	**127,324**	**4,536**	**223,434**

				March 31, 2021
Allowance for expected credit losses on loan guarantees	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2020	-	-	-	-
Net remeasurement of the allowance for expected credit losses[2]	62	61	-	123
Net increase (decrease) in guarantees	12,597	12,739	-	25,336
Balance as at March 31, 2021	12,659	12,800	-	25,459

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

(2) Includes the net remeasurement of the allowance following a transfer between stages, changes in guarantee amounts, changes in credit risk and changes in model inputs and assumptions, including forward-looking macroeconomic variables.

13.
Related party transactions

As at December 31, 2021, BDC had $13,974.1 million outstanding in short-term notes and $5,495.3 million in long-term notes with Her Majesty the Queen in Right of Canada acting through the Minister of Finance ($13,336.4 million in short-term notes and $4,908.6 million in long-term notes as at March 31, 2021).

BDC recorded $22.1 million in interest expense, related to the borrowings from the Minister of Finance, for the quarter and $66.0 million for the nine-months ended December 31, 2021. Last year's comparative figures for the same periods were $21.4 million and $72.2 million, respectively.

In addition, $90.0 million in borrowings with the Minister of Finance were repurchased in the first nine months of fiscal 2022. This did not result in any gains or losses in the first nine months of fiscal 2022 ($5,305.0 million in borrowings were repurchased during the same period last year).

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

14.
Uncertainties related to COVID-19

The outbreak of a novel and highly contagious form of Coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous government implemented lockdowns and other social distancing measures, adversely impacting global commercial activity and contributing to significant ongoing volatility and declines in the global financial markets. The condensed quarterly Consolidated Financial Statements of BDC prepared as of, and for the quarter ended December 31, 2021, reflect the impacts resulting from COVID-19 to the extent known at the reporting date.

Business Development Bank of Canada

Head Office
5 Place Ville-Marie, Suite 100
Montreal, Quebec H3B 5E7
T 1 877 BDC-BANX (232-2269)
F 1 877 329-9232

For our business centres, please visit www.bdc.ca

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