



2019

Financial Report

Second Quarter

September 30, 2018



Executive Summary

Canadian economic outlook

After a strong 2017, economic growth slowed down. The economy grew at an annualized rate of close to 2 per cent between January and July 2018. Residential investment and household consumption have slowed from last year. The national unemployment rate remains relatively low at 5.9 per cent, close to the lowest level ever recorded.

While growth has slowed compared to last year, the Bank of Canada has raised its rate twice so far this year, and it is currently at 1.5 per cent.

Global economic activity remains strong, however, it has become more uneven. The U.S. economic growth is strong as the recent tax plan is supporting higher business investment and household spending. With inflation rising, the Federal Reserve has raised its policy rate to 2.25 per cent, creating a larger interest rate differential with Canada; this has pushed the Canadian dollar to depreciate against the US dollar. Trade tensions with the U.S. has also put downward pressure on the Canadian dollar.

Furthermore, the uncertainty stemming from the renegotiation of the North American Free Trade Agreement has weighed on confidence, affecting business investment, which slowed to only 1.7 per cent annualized quarterly growth between April and June, compared to 12.1 per cent from January to March.

With the new United States Mexico Canada Agreement now agreed upon, the uncertainty surrounding access to the U.S. market has been lifted, and this should encourage investment. Indeed, even prior to the announcement of the new deal, the Bank of Canada's survey⁽¹⁾ showed the highest number of businesses intending to increase investment over the next 12 months since the first quarter of 2017.

Globally, commodity prices continued to rise but more slowly than in the last quarter. In particular, the price of oil averaged US\$70 a barrel during the quarter, up 3 per cent compared to last quarter. Western Canadian Select is trading around US\$42 per barrel, down from US\$48 last quarter. The discount from West Texas Intermediate widened from US\$19 to US\$27 a barrel.

Business credit conditions were essentially unchanged for households in the last quarter according to the Bank of Canada's *Senior Loan Officer Survey*⁽²⁾, though there was a slight increase in prices. In contrast, businesses are benefitting on both price and non-price conditions as banks compete for corporate borrowers. While demand for credit has risen, lending conditions for small business borrowers has remained unchanged since the end of 2016. Business credit from chartered banks continues to show steady growth but has slowed somewhat, growing 10.7 per cent over the last year.

⁽¹⁾ Bank of Canada *Business Outlook Survey*, Autumn 2018, October 15, 2018. Survey completed between August 23 and September 17, 2018.

⁽²⁾ Bank of Canada, *Senior Loan Officer Survey* – Third Quarter of 2018, October 15, 2018



Financial highlights

The second quarter of fiscal 2019, which ended on September 30, 2018, was characterized by a higher volume of activity compared to the same period last fiscal.

Clients of Financing⁽¹⁾ accepted a total of \$1.6 billion in loans for the second quarter and \$3.7 billion for the six-month period, compared to \$1.4 billion and \$3.6 billion for the same periods last year. Financing's loans portfolio⁽²⁾ stood at \$25.6 billion as at September 30, 2018, a 4.7% increase since March 31, 2018.

Advisory Services achieved strong results during the second quarter and the six-month period. Net contracts signed amounted to \$6.7 million for the quarter and \$14.3 million for the six-month period, which represented 28% and 21% increases compared to the same periods last fiscal. Moreover, revenues also increased, totalling \$5.7 million in the second quarter and \$12.0 million for the six-month period, increasing by 21% and 30%, respectively, compared to the same periods last fiscal.

Following a high level of activity in the three-month and six-month periods last year, Growth & Transition Capital reported a lower volume of acceptances for the first six-months of this fiscal. Clients accepted \$86.1 million in financing during the second quarter and \$172.7 million for the six-month period, compared to \$109.3 million and \$223.4 million for the same periods last year.

Venture Capital authorized investments totalling \$40.5 million in the second quarter and \$79.9 million for the six months of fiscal 2019, compared to \$25.1 million and \$80.2 million for the same periods last fiscal.

The consolidated net income for the second quarter and six-month period reached \$213.6 million and \$434.6 million, respectively, compared to the \$291.3 million and \$437.0 million, respectively, achieved for the same periods last fiscal. The lower results in the second quarter compared to last year are mainly attributable to lower fair value changes in Venture Capital.

As at September 30, 2018, BDC expects its consolidated net income for fiscal 2019 to exceed its Corporate Plan annual net income target of \$554 million.

BDC quarterly achievements

- Additional deals completed as part of BDC Capital's \$200 million Women in Technology Venture Fund, for a total of 21 investments to date.
- A dozen one-day "WE Talk Business" boot camps were announced, taking place during fall/winter 2018-19. These workshops will focus on enhancing business skills and financial literacy for women entrepreneurs with a desire to grow.
- New \$800 million commercial financing envelope made available for eligible steel and aluminium SMEs to help them navigate through market turbulence.
- \$250 million initiative created to offer financing for the acquisition of intangible assets. This support will help entrepreneurs mitigate the increased competition in the market, the speed of technologic disruption along with the migration towards a more digitized environment.
- The 2018 edition of BDC Small Business Week™ will run in October under the theme "Digitize now: Transform your business", following a previous BDC study revealing the dramatic impact digital transformation can have on sales growth.
- BDC's labour shortage study released in September generated high interest across Canada. The report revealed that over 39% of SMEs are struggling to find new employees, and that the problem will not improve for at least a decade.

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

⁽²⁾ Before allowance for credit losses



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

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

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



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

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



Management Discussion and Analysis

Context of the Quarterly Financial Report

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

Risk Management

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

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

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



Analysis of Financial Results

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

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

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

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

Consolidated net income

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2019	F2018	F2019	F2018
Financing	178.1	177.9	341.8	307.5
Advisory Services	(12.4)	(12.6)	(24.1)	(25.3)
Growth & Transition Capital	29.5	36.2	42.7	48.6
Venture Capital	2.3	90.6	38.6	95.9
Venture Capital Incentive Programs	16.6	(0.7)	36.6	10.3
Cleantech Practice	(0.5)	-	(1.1)	-
Net income	213.6	291.4	434.6	437.0
Net income attributable to:				
BDC's shareholder	214.6	253.3	433.6	398.9
Non-controlling interests	(1.0)	38.1	1.0	38.1
Net income	213.6	291.4	434.6	437.0

Three and six months ended September 30

For the quarter ended September 30, 2018, BDC's consolidated net income was \$213.6 million, comprising \$214.7 million attributable to BDC's shareholder and a net loss of \$1.0 million attributable to non-controlling interests. In comparison, BDC reported \$291.4 million in consolidated net income for the same period last year, of which net income of \$38.1 million was attributable to non-controlling interests.

BDC recorded strong consolidated net income of \$434.6 million for the six months ended September 30, 2018, slightly lower than the \$437.0 million recorded for the same period last year.



The decrease in the second quarter compared to last year was mostly attributable to lower net change in unrealized appreciation of investments from Venture Capital. For the six-month period, the lower net change in unrealized appreciation of investments from Venture Capital was offset by better Financing results due to portfolio growth.

Consolidated comprehensive income

	Three months ended September 30		Six months ended September 30	
(\$ in millions)	F2019	F2018	F2019	F2018
Net income	213.6	291.4	434.6	437.0
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on FVOCI assets	(0.6)	(2.3)	(0.3)	(3.5)
Net change in unrealized gains (losses) on cash flow hedges	(0.3)	(0.1)	1.9	(0.3)
Total items that may be reclassified subsequently to net income	(0.9)	(2.4)	1.6	(3.8)
Items that will not be reclassified to net income				
Remeasurements of net defined benefit asset or liability	44.9	108.5	109.7	16.0
Other comprehensive income (loss)	44.0	106.1	111.3	12.2
Total comprehensive income	257.6	397.5	545.9	449.2
Total comprehensive income attributable to:				
BDC's shareholder	258.6	359.4	544.9	411.1
Non-controlling interests	(1.0)	38.1	1.0	38.1
Total comprehensive income	257.6	397.5	545.9	449.2

Three and six months ended September 30

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

BDC recorded other comprehensive income of \$44.0 million and \$111.3 million, respectively, for the second quarter and the six-month period ended September 30, 2018, compared to other comprehensive income of \$106.1 million and \$12.2 million for the same periods last year. The increase in OCI for the six-month period of fiscal 2019 was mainly attributable to a remeasurement gain of \$109.7 million on the net defined benefit asset or liability. This gain was due to higher discount rates used to value the net defined benefit liability and higher returns on pension plan assets than forecasted.



Financing results

	Three months ended September 30		Six months ended September 30	
	F2019	F2018	F2019	F2018
(\$ in millions)				
Net interest income	312.3	285.7	608.7	552.5
Fee and other income	5.0	4.5	10.4	9.1
Provision for credit losses	(34.6)	(15.6)	(71.3)	(59.5)
Net gains (losses) on investments	-	0.5	-	0.3
Net foreign exchange gains (losses)	(2.0)	(0.3)	(4.8)	(2.5)
Net gains (losses) on other financial instruments	0.1	0.1	0.5	0.6
Income before operating and administrative expenses	280.8	274.9	543.5	500.5
Operating and administrative expenses	102.7	97.0	201.7	193.0
Net income from Financing	178.1	177.9	341.8	307.5

	Three months ended September 30		Six months ended September 30	
	F2019	F2018	F2019	F2018
As % of average portfolio				
Net interest income	4.7	4.7	4.7	4.6
Fee and other income	0.1	0.1	0.1	0.1
Provision for credit losses	(0.5)	(0.3)	(0.6)	(0.5)
Net gains (losses) on investments	-	-	-	-
Net gains (losses) on other financial instruments	-	-	-	-
Net foreign exchange gains (losses)	-	-	-	-
Income before operating and administrative expenses	4.3	4.5	4.2	4.2
Operating and administrative expenses	1.6	1.6	1.6	1.6
Net income from Financing	2.7	2.9	2.6	2.6



Three and six months ended September 30

Net income from financing was \$178.1 million for the second quarter of fiscal 2019 and \$341.8 million for the six-month period ended September 30, 2018, compared to \$177.9 million and \$307.5 million for the same periods last year. The increase in profitability in the second quarter and first half of fiscal 2019 was mainly due to higher net interest and fee income, primarily as a result of strong portfolio growth. As a percentage of average portfolio, net interest and fee income amounted to 4.8% for the first half of fiscal 2019, higher than the 4.7% recorded in the same period last year.

This increase was offset by a higher provision for credit losses on productive loans due to portfolio growth and as a result of the new IFRS 9 impairment model which was adopted in the first quarter of fiscal 2019. The increase of \$11.8 million for the six-month period ended September 30, 2018 is mainly attributable to the expected credit losses on productive loans.

Operating and administrative expenses for the quarter and six months ended September 30, 2018 were higher than those in the corresponding periods last year. However, operating and administrative expenses as a percentage of average portfolio remained unchanged compared to last year at 1.6%.

Advisory Services results

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2019	F2018	F2019	F2018
Revenue	5.7	4.8	12.0	9.3
Delivery expenses ⁽¹⁾	4.0	3.2	8.1	6.5
Gross operating margin	1.7	1.6	3.9	2.8
Operating and administrative expenses	14.1	14.2	28.0	28.1
Net loss from Advisory Services	(12.4)	(12.6)	(24.1)	(25.3)

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

Three and six months ended September 30

The offering under Advisory Services is considered an investment in entrepreneurs. As such, a net loss of \$12.4 million was recorded for the second quarter of fiscal 2019, compared to a \$12.6 million net loss recorded for the same quarter last year. Cumulative net loss for the six-month period ended September 30, 2018, was \$24.1 million, compared to \$25.3 million for the same period last year.

Advisory Services recorded solid revenue of \$5.7 million in the second quarter of fiscal 2019, \$0.9 million higher than that recorded in fiscal 2018. Revenue amounted to \$12.0 million for the first half of fiscal 2019, higher than the \$9.3 million recorded last year. Gross operating margin, at \$3.9 million for the six months ended September 30, 2018, was higher than the \$2.8 million recorded for the same period last year, driven mainly by higher revenues.

Operating and administrative expenses of \$14.1 million and \$28.0 million for the three-month and six-month periods ended September 30, 2018, were in line with those recorded for the same periods of fiscal 2018.



Growth & Transition Capital results

	Three months ended September 30		Six months ended September 30	
	F2019	F2018	F2019	F2018
(\$ in millions)				
Net revenue on investments	39.3	27.4	72.6	53.0
Net change in unrealized appreciation (depreciation) of investments	1.8	19.2	(7.9)	15.2
Net foreign exchange gains (losses)	(0.2)	(0.3)	-	(0.4)
Income before operating and administrative expenses	40.9	46.3	64.7	67.8
Operating and administrative expenses	11.4	10.1	22.0	19.2
Net income from Growth & Transition Capital	29.5	36.2	42.7	48.6
Net income attributable to:				
BDC's shareholder	29.5	28.0	41.2	40.2
Non-controlling interests	-	8.2	1.5	8.4
Net income from Growth & Transition Capital	29.5	36.2	42.7	48.6

	Three months ended September 30		Six months ended September 30	
	F2019	F2018	F2019	F2018
As % of average portfolio				
Net revenue on investments	14.7	11.5	13.7	11.4
Net change in unrealized appreciation (depreciation) of investments	0.7	8.1	(1.5)	3.3
Net foreign exchange gains (losses)	(0.1)	(0.1)	-	(0.1)
Income before operating and administrative expenses	15.3	19.5	12.2	14.6
Operating and administrative expenses	4.3	4.2	4.2	4.1
Net income from Growth & Transition Capital	11.0	15.3	8.0	10.5
Net income attributable to:				
BDC's shareholder	11.0	11.9	7.7	8.7
Non-controlling interests	-	3.4	0.3	1.8
Net income from Growth & Transition Capital	11.0	15.3	8.0	10.5



Three and six months ended September 30

Net income totalled \$29.5 million for the second quarter of fiscal 2019, compared to \$36.2 million recorded for the same period last year. For the six months ended September 30, 2018, Growth & Transition Capital recorded net income of \$42.7 million, compared to \$48.6 million for the same period of fiscal 2018. Results for the quarter were favourably affected by higher net revenue on investments, mainly driven by higher net realized gains from the sale of equity investments.

Growth & Transition Capital recorded a net change in unrealized appreciation of \$1.8 million in the second quarter and a net change in unrealized depreciation of \$7.9 million for the first half of fiscal 2019, compared to a net change in unrealized appreciation of \$19.2 million and \$15.2 million, respectively, during the same periods last year, as detailed below. During the second quarter and the first half of fiscal 2019, the decrease in the net change in unrealized appreciation was mainly driven by the reversal of net fair value appreciation due to realized income which is reflected in net revenue on investments.

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2019	F2018	F2019	F2018
Net fair value appreciation (depreciation)	6.8	14.7	2.6	10.9
Reversal of net fair value depreciation (appreciation) due to realized income and write-offs	(5.0)	4.5	(10.5)	4.3
Net change in unrealized appreciation (depreciation) of investments	1.8	19.2	(7.9)	15.2

Operating and administrative expenses amounted to \$22.0 million for the six-month period ended September 30, 2018, higher than the \$19.2 million recorded last year. The increase was mainly due to higher staff levels required to fully support growth. However, as a percentage of average portfolio, operating and administrative expenses remained at the same level as last year, as BDC continued to focus on efficiency.



Venture Capital results

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2019	F2018	F2019	F2018
Net revenue (loss) on investments	10.9	(15.4)	11.5	(31.8)
Net change in unrealized appreciation (depreciation) of investments	9.4	130.8	38.6	173.4
Net foreign exchange gains (losses)	(10.5)	(18.8)	2.0	(33.8)
Income before operating and administrative expenses	9.8	96.6	52.1	107.8
Operating and administrative expenses	7.5	6.0	13.5	11.9
Net income (loss) from Venture Capital	2.3	90.6	38.6	95.9
Net income attributable to:				
BDC's shareholder	3.3	60.7	39.1	66.2
Non-controlling interests	(1.0)	29.9	(0.5)	29.7
Net income (loss) from Venture Capital	2.3	90.6	38.6	95.9

Three and six months ended September 30

During the second quarter of fiscal 2019, Venture Capital recorded net income of \$2.3 million, compared to net income of \$90.6 million for the same period last year. For the six months ended September 30, 2018, net income was \$38.6 million, compared to \$95.9 million recorded for the same period last year.

Venture Capital recorded a net change in unrealized appreciation of investment of \$9.4 million for the second quarter and \$38.6 million for the first half of fiscal 2019, compared to a net change in unrealized appreciation of \$130.8 million and \$173.4 million for the same periods last year, as detailed below.

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2019	F2018	F2019	F2018
Net fair value appreciation (depreciation)	10.9	98.9	35.9	124.1
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	(1.5)	31.9	2.7	49.3
Net change in unrealized appreciation (depreciation) of investments	9.4	130.8	38.6	173.4

Net foreign exchange losses on investments of \$10.5 million in the second quarter of fiscal 2019 were due to foreign exchange fluctuations on the U.S. dollar and were lower than last year, given the stronger U.S. dollar.

On a year-to-date basis, operating and administrative expenses were \$13.5 million, \$1.6 million higher than those recorded for the same period of fiscal 2018.



Venture Capital Incentive Programs results

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2019	F2018	F2019	F2018
Net revenue (loss) on investments	0.1	-	0.1	0.1
Net change in unrealized appreciation (depreciation) of investments	17.0	(0.3)	37.3	11.0
Net foreign exchange gains (losses)	(0.1)	(0.1)	-	(0.3)
Income (loss) before operating and administrative expenses	17.0	(0.4)	37.4	10.8
Operating and administrative expenses	0.4	0.3	0.8	0.5
Net income (loss) from Venture Capital Incentive Programs	16.6	(0.7)	36.6	10.3

Three and six months ended September 30

During the second quarter of fiscal 2019, Venture Capital Incentive Programs (VCIP) recorded net income of \$16.6 million, compared to a net loss of \$0.7 million for the same period last year. For the six-month period ended September 30, 2018, VCIP recorded net income of \$36.6 million, compared to net income of \$10.3 million for the same period last year.

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

Operating and administrative expenses of \$0.4 million and \$0.8 million for the three-month and six-month periods ended September 30, 2018 were slightly higher than those recorded in the same period of fiscal 2018, mainly due to expenses related to the new Venture Capital Catalyst Initiative.

Cleantech Practice results

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2019	F2018	F2019	F2018
Net interest and fee income	0.4	-	0.6	-
Operating and administrative expenses	0.9	-	1.7	-
Net loss from Cleantech Practice	(0.5)	-	(1.1)	-

Three and six months ended September 30

Net loss from Cleantech Practice was \$0.5 million for the second quarter of fiscal 2019, as BDC continued to scale up this new business line.

The Cleantech Practice portfolio as at September 30, 2018 stood at \$27.5 million, comprising \$17.5 million in subordinate financing investments and \$10.0 million in equity investments.



Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows

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

As at September 30, 2018, total BDC assets amounted to \$29.4 billion, an increase of \$1.6 billion from March 31, 2018, largely due to the \$1.1 billion increase in our gross loans portfolio and the \$131.7 million reversal of the allowance for credit losses following the adoption of IFRS 9.

At \$25.0 billion, the loans portfolio represented BDC's largest asset (\$25.6 billion in gross portfolio less a \$0.6 billion allowance for credit losses). The gross loans portfolio grew by 1.9% over the quarter ended September 30, 2018, reflecting an increase in the level of activity compared to the same period last year.

BDC's investment portfolios, which include the subordinate financing and venture capital portfolios, stood at \$2.9 billion, compared to \$2.7 billion as at March 31, 2018. The asset-backed securities portfolio stood at \$598.0 million, compared to \$472.7 million as at March 31, 2018.

As at September 30, 2018, the fair value of derivative assets was \$16.3 million and the fair value of derivative liabilities was insignificant. Net derivative fair value increased \$4.4 million since March 31, 2018.

As at September 30, 2018, BDC recorded a net defined benefit asset of \$179.6 million related to the registered pension plan and a net defined benefit liability of \$238.8 million for the other plans, for a total net defined benefit liability of \$59.2 million. This represented a decrease of \$100.7 million, compared to the total net defined benefit liability as at March 31, 2018, primarily as a result of remeasurement gains recorded in the first half of fiscal 2019. Refer to page 8 of this report for further information on remeasurements of net defined benefit asset or liability.

BDC holds cash and cash equivalents in accordance with its Treasury Risk Policy. The Bank's liquidities, which ensure funds are available to meet BDC's cash outflows, totalled \$667.1 million as at September 30, 2018, compared to \$672.9 million as at March 31, 2018. For the six-month period ended September 30, 2018, operating activities used \$779.3 million, mainly to support the growth of the loans portfolio. Cash flows used by investing activities amounted to \$176.9 million, reflecting net disbursements of asset-backed securities, venture capital investments and subordinate financing. Financing activities provided \$950.4 million in cash flow, mainly as a result of the issuance of long-term and short-term notes.

As at September 30, 2018, BDC funded its portfolios and liquidities with borrowings of \$21.6 billion and total equity of \$7.4 billion. Borrowings comprised \$20.7 billion in short-term notes and \$0.9 billion in long-term notes.

Capital adequacy

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

BDC's internal capital ratio stood at 139.0% as at September 30, 2018, exceeding its target capital ratio of 134%, compared to 134.7% as at March 31, 2018.



Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)

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Management's Responsibility for Financial Information

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

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

Michael Denham
President and Chief Executive Officer

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

Montreal, Canada
October 31, 2018



Consolidated Statement of Financial Position

(unaudited)

(in thousands of Canadian dollars)	Notes	September 30, 2018	March 31, 2018
ASSETS			
Cash and cash equivalents		667,107	672,870
Asset-backed securities, at FVOCI	7	588,682	465,216
Loans			
Loans, at amortized cost	8	25,579,040	24,432,831
Less: allowance for credit losses	8	(603,879)	(704,640)
Loans at amortized cost, net		24,975,161	23,728,191
Financial assets at fair value through profit or loss			
Derivative assets		16,335	15,357
Asset-backed securities	7	9,356	7,479
Subordinate financing investments	9	1,066,602	1,052,352
Venture capital investments	10	1,784,094	1,663,627
Total financial assets at fair value through profit or loss		2,876,387	2,738,815
Property and equipment		57,794	51,297
Intangible assets		38,410	38,206
Net defined benefit asset		179,574	95,303
Other assets		27,595	19,268
Total assets		29,410,710	27,809,166
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities		88,652	127,453
Short-term notes		20,743,712	20,481,148
Long-term notes		768,408	-
Total financial liabilities at amortized cost		21,600,772	20,608,601
Financial liabilities at fair value through profit or loss			
Derivative liabilities		4	3,387
Long-term notes		135,051	137,684
Total financial liabilities at fair value through profit or loss		135,055	141,071
Net defined benefit liability		238,769	255,225
Other liabilities		73,915	45,066
Total liabilities		22,048,511	21,049,963
Equity			
Share capital	11	2,477,900	2,477,900
Contributed surplus		27,778	27,778
Retained earnings		4,817,169	4,211,785
Accumulated other comprehensive income		581	(991)
Equity attributable to BDC's shareholder		7,323,428	6,716,472
Non-controlling interests		38,771	42,731
Total equity		7,362,199	6,759,203
Total liabilities and equity		29,410,710	27,809,166

Guarantees (Note 13)

Commitments (Notes 7, 8, 9 and 10)

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



Consolidated Statement of Income

(unaudited)

(in thousands of Canadian dollars)	Three months ended September 30		Six months ended September 30	
	2018	2017	2018	2017
Interest income	399,115	337,363	772,362	643,802
Interest expense	65,545	31,904	122,002	52,710
Net interest income	333,570	305,459	650,360	591,092
Net realized gains (losses) on investments	23,897	(12,473)	30,617	(27,688)
Revenue from Advisory Services	5,749	4,719	12,025	9,197
Fee and other income	10,586	9,459	23,103	19,868
Net revenue	373,802	307,164	716,105	592,469
Provision for credit losses	(34,598)	(15,575)	(71,307)	(59,490)
Net change in unrealized appreciation (depreciation) of investments	28,189	150,029	67,981	199,665
Net foreign exchange gains (losses)	(12,864)	(19,456)	(2,829)	(36,988)
Net gains (losses) on other financial instruments	88	(58)	544	602
Income before operating and administrative expenses	354,617	422,104	710,494	696,258
Salaries and benefits	101,262	95,071	200,023	186,896
Premises and equipment	10,746	10,188	21,610	20,363
Other expenses	28,977	25,514	54,219	52,034
Operating and administrative expenses	140,985	130,773	275,852	259,293
Net income	213,632	291,331	434,642	436,965
Net income attributable to:				
BDC's shareholder	214,674	253,206	433,652	398,845
Non-controlling interests	(1,042)	38,125	990	38,120
Net income	213,632	291,331	434,642	436,965

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



Consolidated Statement of Comprehensive Income

(unaudited)

(in thousands of Canadian dollars)	Three months ended September 30		Six months ended September 30	
	2018	2017	2018	2017
Net income	213,632	291,331	434,642	436,965
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on FVOCI assets	(607)	(2,319)	(344)	(3,509)
Net unrealized gains (losses) on cash flow hedges	-	180	2,473	180
Reclassification to net income of losses (gains) on cash flow hedges	(279)	(248)	(557)	(497)
Net change in unrealized gains (losses) on cash flow hedges	(279)	(68)	1,916	(317)
Total items that may be reclassified subsequently to net income	(886)	(2,387)	1,572	(3,826)
Items that will not be reclassified to net income				
Remeasurements of net defined benefit asset or liability	44,844	108,540	109,682	16,010
Other comprehensive income (loss)	43,958	106,153	111,254	12,184
Total comprehensive income	257,590	397,484	545,896	449,149
Total comprehensive income attributable to:				
BDC's shareholder	258,632	359,359	544,906	411,029
Non-controlling interests	(1,042)	38,125	990	38,120
Total comprehensive income	257,590	397,484	545,896	449,149

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



Consolidated Statement of Changes in Equity

For the three months ended September 30
(unaudited)

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)			Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
				FVOCI assets	Cash flow hedges	Total			
Balance as at June 30, 2018	2,477,900	27,778	4,557,651	(4,013)	5,480	1,467	7,064,796	38,647	7,103,443
Total comprehensive income									
Net income			214,674				214,674	(1,042)	213,632
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on FVOCI assets				(607)		(607)	(607)		(607)
Net change in unrealized gains (losses) on cash flow hedges					(279)	(279)	(279)		(279)
Remeasurements of net defined benefit asset or liability			44,844				44,844		44,844
Other comprehensive income (loss)	-	-	44,844	(607)	(279)	(886)	43,958	-	43,958
Total comprehensive income	-	-	259,518	(607)	(279)	(886)	258,632	(1,042)	257,590
Dividends on common shares			-				-		-
Distributions to non-controlling interests								(98)	(98)
Capital injections from non-controlling interests								1,264	1,264
Transactions with owner, recorded directly in equity	-	-	-	-	-	-	-	1,166	1,166
Balance as at September 30, 2018	2,477,900	27,778	4,817,169	(4,620)	5,201	581	7,323,428	38,771	7,362,199

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)			Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
				FVOCI assets	Cash flow hedges	Total			
Balance as at June 30, 2017	2,413,400	27,778	3,526,721	(1,901)	3,172	1,271	5,969,170	19,037	5,988,207
Total comprehensive income									
Net income			253,206				253,206	38,125	291,331
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on FVOCI assets				(2,319)		(2,319)	(2,319)		(2,319)
Net change in unrealized gains (losses) on cash flow hedges					(68)	(68)	(68)		(68)
Remeasurements of net defined benefit asset or liability			108,540				108,540		108,540
Other comprehensive income (loss)	-	-	108,540	(2,319)	(68)	(2,387)	106,153	-	106,153
Total comprehensive income	-	-	361,746	(2,319)	(68)	(2,387)	359,359	38,125	397,484
Dividends on common shares			-				-		-
Distributions to non-controlling interests								(18,403)	(18,403)
Capital injections from non-controlling interests								792	792
Transactions with owner, recorded directly in equity	-	-	-	-	-	-	-	(17,611)	(17,611)
Balance as at September 30, 2017	2,413,400	27,778	3,888,467	(4,220)	3,104	(1,116)	6,328,529	39,551	6,368,080

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



Consolidated Statement of Changes in Equity

For the six months ended September 30
(unaudited)

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)			Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
				FVOCI assets	Cash flow hedges	Total			
Balance as at March 31, 2018	2,477,900	27,778	4,211,785	(4,276)	3,285	(991)	6,716,472	42,731	6,759,203
Impact of adopting IFRS 9 on April 1, 2018 ⁽¹⁾			131,750				131,750		131,750
Opening balance as at April 1, 2018	2,477,900	27,778	4,343,535	(4,276)	3,285	(991)	6,848,222	42,731	6,890,953
Total comprehensive income									
Net income			433,652				433,652	990	434,642
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on FVOCI assets				(344)		(344)	(344)		(344)
Net change in unrealized gains (losses) on cash flow hedges					1,916	1,916	1,916		1,916
Remeasurements of net defined benefit asset or liability			109,682				109,682		109,682
Other comprehensive income (loss)	-	-	109,682	(344)	1,916	1,572	111,254	-	111,254
Total comprehensive income	-	-	543,334	(344)	1,916	1,572	544,906	990	545,896
Dividends on common shares			(69,700)				(69,700)		(69,700)
Distributions to non-controlling interests								(6,214)	(6,214)
Capital injections from non-controlling interests								1,264	1,264
Transactions with owner, recorded directly in equity	-	-	(69,700)	-	-	-	(69,700)	(4,950)	(74,650)
Balance as at September 30, 2018	2,477,900	27,778	4,817,169	(4,620)	5,201	581	7,323,428	38,771	7,362,199

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)			Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
				FVOCI assets	Cash flow hedges	Total			
Balance as at March 31, 2017	2,413,400	27,778	3,473,612	(711)	3,421	2,710	5,917,500	21,795	5,939,295
Total comprehensive income									
Net income			398,845				398,845	38,120	436,965
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on FVOCI assets				(3,509)		(3,509)	(3,509)		(3,509)
Net change in unrealized gains (losses) on cash flow hedges					(317)	(317)	(317)		(317)
Remeasurements of net defined benefit asset or liability			16,010				16,010		16,010
Other comprehensive income (loss)	-	-	16,010	(3,509)	(317)	(3,826)	12,184	-	12,184
Total comprehensive income	-	-	414,855	(3,509)	(317)	(3,826)	411,029	38,120	449,149
Dividends on common shares			-				-		-
Distributions to non-controlling interests								(21,156)	(21,156)
Capital injections from non-controlling interests								792	792
Transactions with owner, recorded directly in equity	-	-	-	-	-	-	-	(20,364)	(20,364)
Balance as at September 30, 2017	2,413,400	27,778	3,888,467	(4,220)	3,104	(1,116)	6,328,529	39,551	6,368,080

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 September 30		Six months ended September 30	
	2018	2017	2018	2017
Operating activities				
Net income	213,632	291,331	434,642	436,965
Adjustments to determine net cash flows				
Interest income	(399,115)	(337,363)	(772,362)	(643,802)
Interest expense	65,545	31,904	122,002	52,710
Net realized losses (gains) on investments	(23,897)	12,473	(30,617)	27,688
Provision for credit losses	34,598	15,575	71,307	59,490
Net change in unrealized depreciation (appreciation) on investments	(28,189)	(150,029)	(67,981)	(199,665)
Net unrealized foreign exchange losses (gains)	9,207	45,912	(7,638)	63,970
Net unrealized losses (gains) on other financial instruments	190	307	987	(104)
Defined benefits funding below (in excess of) amounts expensed	7,751	729	8,955	(819)
Depreciation of property and equipment, and amortization of intangible assets	4,756	3,797	9,512	7,694
Other	(1,569)	708	(12,256)	(7,352)
Interest expense paid	(61,766)	(29,982)	(116,018)	(48,886)
Interest income received	387,445	315,208	752,835	614,499
Changes in operating assets and liabilities				
Net change in loans	(503,721)	(390,687)	(1,132,658)	(1,004,751)
Net change in accounts payable and accrued liabilities	(47,571)	(49,972)	(38,801)	(42,003)
Net change in other assets and other liabilities	378	(221)	(1,166)	(5,336)
Net cash flows provided (used) by operating activities	(342,326)	(240,310)	(779,257)	(689,702)
Investing activities				
Disbursements for asset-backed securities	(123,724)	(114,348)	(239,895)	(155,416)
Repayments and proceeds on sale of asset-backed securities	59,590	147,317	114,418	199,351
Disbursements for subordinate financing investments	(81,099)	(96,937)	(154,253)	(203,001)
Repayments of subordinate financing investments	84,969	49,199	150,070	100,730
Disbursements for venture capital investments	(35,243)	(83,555)	(111,546)	(183,716)
Proceeds on sale of venture capital investments	36,357	44,023	80,554	61,978
Acquisition of property and equipment	(7,663)	(7,373)	(10,922)	(9,749)
Acquisition of intangible assets	(2,166)	(3,305)	(5,291)	(6,840)
Net cash flows provided (used) by investing activities	(68,979)	(64,979)	(176,865)	(196,663)
Financing activities				
Net change in short-term notes	134,980	334,911	260,009	944,925
Issue of long-term notes	270,000	-	765,000	-
Repayment of long-term notes	-	(16,475)	-	(16,475)
Distributions to non-controlling interests	(98)	(18,403)	(6,214)	(21,156)
Capital injections from non-controlling interests	1,264	792	1,264	792
Dividends paid on common shares	-	-	(69,700)	-
Net cash flows provided (used) by financing activities	406,146	300,825	950,359	908,086
Net increase (decrease) in cash and cash equivalents	(5,159)	(4,464)	(5,763)	21,721
Cash and cash equivalents at beginning of period	672,266	675,353	672,870	649,168
Cash and cash equivalents at end of period	667,107	670,889	667,107	670,889

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



Notes to the Consolidated Financial Statements

(unaudited in thousands of Canadian dollars)

1.

BDC general description

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

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

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

2.

Basis of preparation

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

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

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

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

The condensed quarterly Consolidated Financial Statements were approved for issue by the Board of Directors on October 31, 2018.



3.

Significant accounting policies

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

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

Financial instruments

Recognition, derecognition and measurement of financial instruments

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

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

Financial instruments are recognized and derecognized using settlement date accounting.

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

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

Financial assets

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

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

Business model assessment

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

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

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

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

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

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

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

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

Financial liabilities

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

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

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

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

Financial instruments classified as at amortized cost

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

Financial instruments classified as at fair value through profit or loss

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

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

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

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

Financial instruments classified as at fair value through other comprehensive income

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

Financial liabilities designated at fair value through profit or loss

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

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

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

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

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

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

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

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

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

Definition of default

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

Write-off policy

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

Major types of financial instruments

Cash equivalents

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

Cash equivalents are classified at amortized cost.

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

Asset-backed securities

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

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

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

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

Loans

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

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

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

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

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

Subordinate financing and venture capital investments

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

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

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4.

Adoption of IFRS 9

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

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

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

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

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



5.

Significant accounting judgements, estimates and assumptions

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

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

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

Estimates and Assumptions

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

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

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

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

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

Fair value of financial instruments

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

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

Notes to the Consolidated Financial Statements

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

Qualifying hedge relationships

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

6.

Fair value of financial instruments

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

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

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

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

	Fair value measurements using			September 30, 2018
	Level 1	Level 2	Level 3	Total fair value
Assets				
Derivative assets		16,335		16,335
Asset-backed securities, as at FVOCI		588,682		588,682
Asset-backed securities, as at FVTPL		9,356		9,356
Subordinate financing investments	2,533		1,064,069	1,066,602
Venture capital investments	127,630		1,656,464	1,784,094
	130,163	614,373	2,720,533	3,465,069
Liabilities				
Derivative liabilities		4		4
Long-term notes designated as at FVTPL		135,051		135,051
	-	135,055	-	135,055

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

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

	September 30, 2018		
	Subordinate financing investments	Venture capital investments	Total
Fair value as at April 1, 2018	1,050,452	1,513,777	2,564,229
Net realized gains (losses) on investments	20,739	9,823	30,562
Net change in unrealized appreciation (depreciation) of investments	(8,501)	99,235	90,734
Net unrealized foreign exchange gains (losses) on investments	-	966	966
Disbursements for investments	154,253	115,535	269,788
Repayments of investments and other	(152,874)	(82,742)	(235,616)
Transfers from level 3 to level 1	-	(130)	(130)
Fair value as at September 30, 2018	1,064,069	1,656,464	2,720,533

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

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7.

Asset-backed securities

	September 30, 2018	March 31, 2018
Fair value through other comprehensive income		
Principal amount	593,302	469,492
Cumulative fair value appreciation (depreciation)	(4,620)	(4,276)
Carrying value	588,682	465,216
Yield	2.51%	2.19%
Fair value through profit or loss		
Principal amount	9,407	7,543
Cumulative fair value appreciation (depreciation)	(51)	(64)
Carrying value	9,356	7,479
Yield	7.85%	7.79%
Asset-backed securities	598,038	472,695

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

Undisbursed amounts of authorized asset-backed securities were \$373,000 as at September 30, 2018 (\$403,000 as at March 31, 2018).

8.

Loans

The following tables summarize loans outstanding by contractual maturity date.

	Within 1 year	1 to 5 years	Over 5 years	Total gross carrying amount	Allowance for credit losses	Total net carrying amount
Performing	356,532	2,940,870	21,441,997	24,739,399	(274,116)	24,465,283
Impaired	18,078	131,167	690,396	839,641	(329,763)	509,878
Loans as at September 30, 2018	374,610	3,072,037	22,132,393	25,579,040	(603,879)	24,975,161

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

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

	September 30, 2018			
	Allowance for credit losses			
	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2018	110,259	147,304	314,884	572,447
Provision for credit losses				
Transfer to Stage 1 ⁽¹⁾	36,073	(34,192)	(1,881)	-
Transfer to Stage 2 ⁽¹⁾	(19,329)	41,087	(21,758)	-
Transfer to Stage 3 ⁽¹⁾	(790)	(14,211)	15,001	-
Net remeasurement of allowance for credit losses ⁽²⁾	(38,814)	17,391	72,200	50,777
Financial assets that have been fully repaid ⁽³⁾	(5,889)	(8,031)	(17,967)	(31,887)
New financial assets originated	35,882	7,402	-	43,284
Changes in models/risks parameters ⁽⁴⁾	-	-	-	-
Write-offs	-	-	(39,740)	(39,740)
Recoveries	-	-	7,173	7,173
Foreign exchange and other movements	(151)	125	1,851	1,825
Balance as at September 30, 2018	117,241	156,875	329,763	603,879

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

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

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

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

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

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Concentrations of total loans outstanding and undisbursed commitments

Undisbursed amounts of authorized loans were \$3,142,802 as at September 30, 2018 (\$667,262 fixed rate; \$2,475,540 floating rate). The weighted-average effective interest rate was 5.2% on loan commitments (5.0% as at March 31, 2018).

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

Geographic distribution	September 30, 2018		March 31, 2018	
	Outstanding	Commitments	Outstanding	Commitments
Newfoundland and Labrador	873,764	84,718	877,891	65,037
Prince Edward Island	71,058	10,754	70,651	10,729
Nova Scotia	612,216	59,409	562,650	78,644
New Brunswick	485,605	50,302	494,334	39,447
Quebec	8,160,164	843,683	7,658,985	877,635
Ontario	7,050,350	833,485	6,689,723	841,715
Manitoba	708,420	81,141	726,386	132,416
Saskatchewan	811,118	54,600	800,563	50,501
Alberta	3,636,184	573,596	3,545,959	523,994
British Columbia	3,013,805	542,378	2,855,772	461,037
Yukon	108,749	4,883	108,548	3,561
Northwest Territories and Nunavut	47,607	3,853	41,369	2,820
Loans	25,579,040	3,142,802	24,432,831	3,087,536

Industry sector	September 30, 2018		March 31, 2018	
	Outstanding	Commitments	Outstanding	Commitments
Manufacturing	5,888,830	925,704	5,611,342	828,926
Wholesale and retail trade	4,773,878	504,329	4,579,060	440,197
Service industries	3,578,847	400,333	3,438,475	392,878
Tourism	3,220,090	346,142	3,046,763	414,777
Commercial properties	2,818,295	149,878	2,674,608	155,636
Construction	1,958,183	248,464	1,903,043	231,517
Transportation and storage	1,441,357	178,895	1,386,700	168,158
Resources	1,075,589	239,726	1,018,978	285,659
Other	823,971	149,331	773,862	169,788
Loans	25,579,040	3,142,802	24,432,831	3,087,536

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

	September 30, 2018			
	Allowance for credit losses on commitments			
	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2018	16,320	5,367	-	21,687
Net remeasurement of the allowance for credit losses	(653)	2,587	-	1,934
Net increase (decrease) in commitments	1,788	(4,541)	-	(2,753)
Foreign exchange and other movements	(11)	17	-	6
Balance as at September 30, 2018	17,444	3,430	-	20,874

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(unaudited, in thousands of Canadian dollars)



9.

Subordinate financing investments

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

	Within 1 year	1 to 5 years	Over 5 years	Total cost	Total fair value
As at September 30, 2018	115,202	754,766	243,923	1,113,891	1,066,602
As at March 31, 2018	94,090	717,299	278,101	1,089,490	1,052,352

Concentrations of subordinate financing investments and commitments

Undisbursed amounts of authorized investments totalled \$129,389 as at September 30, 2018 (\$29,748 fixed rate; \$99,641 floating rate). The weighted average effective interest rate was 10.1% on subordinate financing commitments (10.0% as at March 31, 2018), excluding non-interest return.

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

Geographic distribution	September 30, 2018			March 31, 2018		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Newfoundland and Labrador	6,733	11,557	379	5,439	10,694	374
Nova Scotia	11,270	13,734	790	13,227	16,260	1,000
New Brunswick	24,680	23,076	3,075	23,353	22,122	4,200
Quebec	402,978	414,160	53,670	413,215	422,895	27,721
Ontario	377,869	396,770	55,055	356,729	362,113	62,112
Manitoba	7,838	5,851	1,800	7,382	5,864	-
Saskatchewan	46,233	49,056	1,100	46,111	48,557	1,100
Alberta	98,866	114,072	8,720	103,504	117,849	3,437
British Columbia	86,018	81,566	4,800	78,181	77,941	8,500
Yukon	430	443	-	542	565	-
Northwest Territories and Nunavut	3,687	3,606	-	4,669	4,630	-
Subordinate financing investments	1,066,602	1,113,891	129,389	1,052,352	1,089,490	108,444

Industry sector	September 30, 2018			March 31, 2018		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Manufacturing	317,379	347,228	56,019	316,080	329,636	44,948
Service industries	292,197	301,579	42,895	283,565	291,641	27,895
Wholesale and retail trade	214,335	215,281	10,940	203,862	212,427	14,784
Construction	66,037	62,828	2,825	66,390	65,418	6,200
Information industries	50,233	50,127	10,715	58,201	58,124	7,450
Resources	48,934	68,027	1,350	49,906	69,166	1,767
Transportation and storage	27,646	31,363	1,500	26,298	30,454	2,650
Tourism	13,089	13,326	895	8,562	8,867	2,750
Educational services	7,887	7,700	-	8,307	8,157	-
Other	28,865	16,432	2,250	31,181	15,600	-
Subordinate financing investments	1,066,602	1,113,891	129,389	1,052,352	1,089,490	108,444

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10.

Venture capital investments

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

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

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

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

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

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

Investment type	September 30, 2018			March 31, 2018		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Direct investments	763,049	583,492	17,979	726,227	544,303	31,442
Funds ⁽¹⁾	1,021,045	745,357	332,630	937,400	741,818	346,600
Venture capital investments	1,784,094	1,328,849	350,609	1,663,627	1,286,121	378,042

⁽¹⁾ Included in the amounts above, VCIP investments, which were all VCAP related investments, had a fair value of \$438,559 and a cost of \$364,066 as at September 30, 2018 (\$400,516 and \$363,269, respectively, as at March 31, 2018). As at September 30, 2018, BDC's invested in 70 funds through its VC business line and 9 funds through VCIP (70 funds and 8 funds, respectively, as at March 31, 2018).

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Concentrations of total venture capital investments and commitments

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

Industry sector	September 30, 2018			March 31, 2018		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Information technology	344,549	249,516	3,146	303,064	232,627	10,962
Biotechnology and pharmacology	160,183	86,153	3,156	174,424	85,288	3,150
Industrial	63,527	17,484	4,060	57,747	15,197	-
Communications	56,813	54,261	1,431	47,867	51,565	1,080
Electronics	46,217	57,081	3,501	54,064	56,141	3,570
Energy	33,243	45,394	-	33,258	35,394	10,000
Medical and health	25,204	53,883	2,685	28,810	53,883	2,680
Other	33,313	19,720	-	26,993	14,208	-
Total direct investments	763,049	583,492	17,979	726,227	544,303	31,442
Funds	1,021,045	745,357	332,630	937,400	741,818	346,600
Venture capital investments	1,784,094	1,328,849	350,609	1,663,627	1,286,121	378,042

11.

Share capital

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

Statutory limitations

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

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

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

Capital adequacy

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



12.

Segmented information

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

	Three months ended September 30, 2018						
	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice
Interest income	399,115	375,743	-	23,007	-	-	365
Interest expense	65,545	63,437	-	2,010	-	-	98
Net interest income	333,570	312,306	-	20,997	-	-	267
Net realized gains (losses) on investments	23,897	-	-	13,774	10,123	-	-
Revenue from Advisory Services	5,749	-	5,749	-	-	-	-
Fee and other income	10,586	5,035	1	4,505	831	70	144
Net revenue (loss)	373,802	317,341	5,750	39,276	10,954	70	411
Provision for credit losses	(34,598)	(34,598)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	28,189	(11)	-	1,814	9,393	16,993	-
Net foreign exchange gains (losses)	(12,864)	(2,017)	-	(216)	(10,533)	(98)	-
Net gains (losses) on other financial instruments	88	88	-	-	-	-	-
Income (loss) before operating and administrative expenses	354,617	280,803	5,750	40,874	9,814	16,965	411
Salaries and benefits	101,262	73,458	12,693	9,667	4,477	230	737
Premises and equipment	10,746	8,537	1,110	563	452	32	52
Other expenses	28,977	20,713	4,369	1,134	2,533	129	99
Operating and administrative expenses	140,985	102,708	18,172	11,364	7,462	391	888
Net income (loss)	213,632	178,095	(12,422)	29,510	2,352	16,574	(477)
Net income (loss) attributable to:							
BDC's shareholder	214,674	178,095	(12,422)	29,522	3,382	16,574	(477)
Non-controlling interests	(1,042)	-	-	(12)	(1,030)	-	-
Net income (loss)	213,632	178,095	(12,422)	29,510	2,352	16,574	(477)
Business segment portfolio as at September 30, 2018							
Asset-backed securities at FVTOCI	588,682	588,682					
Loans	24,975,161	24,975,161					
Asset-backed securities at FVTPL	9,356	9,356					
Subordinate financing investments	1,066,602	10,132		1,038,999			17,471
Venture capital investments	1,784,094				1,335,535	438,559	10,000
Total portfolio	28,423,895	25,583,331	-	1,038,999	1,335,535	438,559	27,471
Business segment undisbursed commitments as at September 30, 2018							
Loans	3,142,802	3,142,802					
Asset-backed securities	373,000	373,000					
Investments	479,998	1,350		109,446	323,491	27,118	18,593
Total commitments	3,995,800	3,517,152	-	109,446	323,491	27,118	18,593

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Three months ended
September 30, 2017

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice
Interest income	337,363	316,546	-	20,817	-	-	-
Interest expense	31,904	30,740	-	1,164	-	-	-
Net interest income	305,459	285,806	-	19,653	-	-	-
Net realized gains (losses) on investments	(12,473)	228	-	2,787	(15,488)	-	-
Revenue from Advisory Services	4,719	-	4,719	-	-	-	-
Fee and other income	9,459	4,445	43	4,889	88	(6)	-
Net revenue (loss)	307,164	290,479	4,762	27,329	(15,400)	(6)	-
Provision for credit losses	(15,575)	(15,575)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	150,029	244	-	19,256	130,738	(209)	-
Net foreign exchange gains (losses)	(19,456)	(237)	-	(261)	(18,826)	(132)	-
Net gains (losses) on other financial instruments	(58)	(58)	-	-	-	-	-
Income (loss) before operating and administrative expenses	422,104	274,853	4,762	46,324	96,512	(347)	-
Salaries and benefits	95,071	69,835	11,978	8,561	4,390	307	-
Premises and equipment	10,188	8,080	1,082	513	499	14	-
Other expenses	25,514	19,080	4,303	1,036	1,068	27	-
Operating and administrative expenses	130,773	96,995	17,363	10,110	5,957	348	-
Net income (loss)	291,331	177,858	(12,601)	36,214	90,555	(695)	-
Net income (loss) attributable to:							
BDC's shareholder	253,206	177,858	(12,601)	27,981	60,663	(695)	-
Non-controlling interests	38,125	-	-	8,233	29,892	-	-
Net income (loss)	291,331	177,858	(12,601)	36,214	90,555	(695)	-
Business segment portfolio as at September 30, 2017							
Asset-backed securities at FVTOCI	463,880	463,880					
Loans	22,703,136	22,703,136					
Asset-backed securities at FVTPL	6,715	6,715					
Subordinate financing investments	986,435	8,149		978,286			-
Venture capital investments	1,557,092				1,183,331	373,761	-
Total portfolio	25,717,258	23,181,880		978,286	1,183,331	373,761	-
Business segment undisbursed commitments as at September 30, 2017							
Loans	3,097,294	3,097,294					
Asset-backed securities	406,000	406,000					
Investments	434,992	1,880		89,662	305,698	37,752	-
Total commitments	3,938,286	3,505,174	-	89,662	305,698	37,752	-

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Six months ended
September 30, 2018

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice
Interest income	772,362	726,860	-	44,896	-	-	606
Interest expense	122,002	118,095	-	3,757	-	-	150
Net interest income	650,360	608,765	-	41,139	-	-	456
Net realized gains (losses) on investments	30,617	-	-	20,739	9,878	-	-
Revenue from Advisory Services	12,025	-	12,025	-	-	-	-
Fee and other income	23,103	10,435	21	10,766	1,594	132	155
Net revenue (loss)	716,105	619,200	12,046	72,644	11,472	132	611
Provision for credit losses	(71,307)	(71,307)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	67,981	13	-	(7,868)	38,596	37,240	-
Net foreign exchange gains (losses)	(2,829)	(4,843)	-	2	2,007	5	-
Net gains (losses) on other financial instruments	544	544	-	-	-	-	-
Income (loss) before operating and administrative expenses	710,494	543,607	12,046	64,778	52,075	37,377	611
Salaries and benefits	200,023	145,573	25,248	18,544	8,824	454	1,380
Premises and equipment	21,610	17,290	2,189	1,093	882	56	100
Other expenses	54,219	38,858	8,710	2,430	3,747	259	215
Operating and administrative expenses	275,852	201,721	36,147	22,067	13,453	769	1,695
Net income (loss)	434,642	341,886	(24,101)	42,711	38,622	36,608	(1,084)
Net income (loss) attributable to:							
BDC's shareholder	433,652	341,886	(24,101)	41,207	39,136	36,608	(1,084)
Non-controlling interests	990	-	-	1,504	(514)	-	-
Net income (loss)	434,642	341,886	(24,101)	42,711	38,622	36,608	(1,084)

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Six months ended
September 30, 2017

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice
Interest income	643,802	602,935	-	40,867	-	-	-
Interest expense	52,710	50,452	-	2,258	-	-	-
Net interest income	591,092	552,483	-	38,609	-	-	-
Net realized gains (losses) on investments	(27,688)	228	-	4,059	(31,975)	-	-
Revenue from Advisory Services	9,197	-	9,197	-	-	-	-
Fee and other income	19,868	9,124	103	10,348	243	50	-
Net revenue (loss)	592,469	561,835	9,300	53,016	(31,732)	50	-
Provision for credit losses	(59,490)	(59,490)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	199,665	25	-	15,215	173,385	11,040	-
Net foreign exchange gains (losses)	(36,988)	(2,482)	-	(411)	(33,849)	(246)	-
Net gains (losses) on other financial instruments	602	602	-	-	-	-	-
Income (loss) before operating and administrative expenses	696,258	500,490	9,300	67,820	107,804	10,844	-
Salaries and benefits	186,896	138,094	23,711	16,086	8,546	459	-
Premises and equipment	20,363	16,202	2,137	1,020	972	32	-
Other expenses	52,034	38,686	8,759	2,154	2,385	50	-
Operating and administrative expenses	259,293	192,982	34,607	19,260	11,903	541	-
Net income (loss)	436,965	307,508	(25,307)	48,560	95,901	10,303	-
Net income (loss) attributable to:							
BDC's shareholder	398,845	307,508	(25,307)	40,179	66,162	10,303	-
Non-controlling interests	38,120	-	-	8,381	29,739	-	-
Net income (loss)	436,965	307,508	(25,307)	48,560	95,901	10,303	-



13.

Guarantees

BDC issues “letters of credit, loan guarantees and portfolio guarantees” (guarantees) to support businesses. Those guarantees represent BDC’s obligation to make payments to third parties if clients are unable to meet their contractual commitments. Collateral requirements for guarantees are consistent with BDC collateral requirements for loans. The fee income earned is calculated on a straight-line basis over the life of the instrument and recognized in fee and other income in the Consolidated Statement of Income. The maximum contractual obligation under the guarantees totalled \$42.2 million as at September 30, 2018 (\$45.5 million as at March 31, 2018) and the existing terms expire within 133 months (within 139 months as at March 31, 2018). However, the actual exposure as at September 30, 2018, was \$32.2 million (\$34.4 million as at March 31, 2018).

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

14.

Related party transactions

As at September 30, 2018 BDC had \$20,743 million outstanding in short-term notes and \$768 million long-term notes with Her Majesty the Queen in Right of Canada acting through the Minister of Finance (\$20,480 million in short-term notes and no long-term notes as at March 31, 2018).

BDC recorded \$68.0 million in interest expense, related to the borrowings from the Minister of Finance, for the quarter and \$126.4 million for the six-months ended September 30, 2018. Last year’s comparative figure for the same periods were \$32.8 million and \$54.2 million, respectively.

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

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



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