



2018 Financial Report

Third Quarter

December 31, 2017



Executive Summary

The Canadian economy is running close to full capacity. During the three-month period ended December 31, 2017, the economy decelerated from its much stronger growth earlier in the year. The combination of slower growth and below-target inflation kept the Bank of Canada on hold in December, maintaining the overnight interest rate at 1.00%.

The national unemployment rate, at 5.7%, is currently at the lowest level ever recorded. Unemployment rates for Canada's three largest provinces are also close to historic lows. Average weekly wages picked up over the quarter, rising 2.9%, compared to the same period last year.

The American economy's strong growth in the second half of 2017 helped Canada's exports to remain strong, hitting close to record levels in the energy sector. Metals, industrial machinery and agricultural products also had positive real growth.

Commodity prices rose in the last quarter. In particular, the price of oil averaged US\$55 per barrel during the quarter and closed 2017 even higher at US\$60/barrel. However, the upswing in the price of oil has not been felt in Western Canada, as a result of various market factors.

The high consumer debt ratio⁽¹⁾ remains a risk for the Canadian economy, especially in the context of rising interest rates. However, a strong job market mitigates this risk. The uncertainty surrounding the renegotiation of the North American Free Trade Agreement (NAFTA) also presents a risk to the Canadian economy, given that the U.S. is Canada's most important trading partner, accounting for over 70% of our exports of goods and services.

Business confidence remains positive, according to the Bank of Canada's most recent Business Outlook Survey⁽²⁾ supporting business investment and employment plans. Business credit conditions eased in the last months of 2017, according to the Bank of Canada's Senior Loan Officer Survey. As a result of current credit conditions in the market and BDC's complementary role, the volume of BDC's activity slowed slightly in the third quarter of fiscal 2018, compared to last year.

Loans accepted by clients of Financing⁽³⁾ reached \$1.7 billion for the quarter, compared to \$1.8 billion for the same period last year. For the nine-month period ended December 31, 2017, clients accepted 13,786 loans for a total of \$5.3 billion, compared to 12,005 and \$5.3 billion, respectively, for the same period last year. The increase in the number of loans accepted in fiscal 2018 was driven by a strong volume of online financing activity, as BDC continued to invest in technology and processes to make it easier for small and medium-sized enterprises to access financing through its virtual business centre.

Financing's loans portfolio⁽⁴⁾ stood at \$23.9 billion as at December 31, 2017, a 6.7% increase since March 31, 2017.

⁽¹⁾ Consumer debt to disposable income was at a record high of 171% at the end of the third quarter of 2017.

⁽²⁾ Bank of Canada, Business Outlook Survey, Winter 2017 – 18, January 8, 2018.

⁽³⁾ Unless otherwise indicated, Financing excludes Growth & Transition Capital.

⁽⁴⁾ Before allowance for credit losses.



During the quarter ended December 31, 2017, clients of Growth & Transition Capital (G&TC) accepted \$133.6 million in financing, for a total of \$357.0 million for the nine-month period. These were strong results, compared to \$90.8 million and \$265.3 million, respectively, for the same periods last year.

In December, BDC announced that it had earmarked \$900 million for change of ownership transactions as part of the \$1.8 billion it had committed to investing in high-potential firms over five years, announced last April. With BDC's help, business owners have the opportunity to withdraw capital while maintaining ownership of the company, which is often the first step in a phased succession approach.

Venture Capital authorized investments totalling \$11.2 million in the third quarter of fiscal 2018, compared to \$65.6 million for the same period last year, for a total of \$91.4 million for the nine months ended December 31, 2017 (\$122.6 million for the same period last year). The decrease in authorizations was mainly due to lower indirect investments as a result of the timing of fund closings.

In November, BDC announced that it had committed an additional \$20 million to its Women in Tech investment program as part of its continued efforts to support women entrepreneurs. The new commitment builds on a 2016 commitment to invest \$50 million in women-led technology firms, bringing the total fund size to \$70 million, to be invested over five years.

BDC Advisory Services supported entrepreneurs by initiating 473 mandates for a total of \$8.3 million during the third quarter of fiscal 2018, and 1,147 mandates for a total of \$22.4 million for the nine-month period. This compared to 448 mandates for a total of \$8.0 million and 1,405 mandates for a total of \$20.4 million for the same periods last year, respectively.

In the third quarter of fiscal 2018, BDC posted consolidated net income of \$157.3 million, for a total of \$594.2 million for the nine-month period of fiscal 2018. The comparative figures for the same periods in fiscal 2017 were \$116.2 million and \$322.1 million, respectively. The favourable variance compared to fiscal 2017 was mostly attributable to a higher net change in unrealized appreciation of Venture Capital's investments, to Financing's portfolio growth and to a lower provision for credit losses.



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

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

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



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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 December 31, 2017.



Analysis of Financial Results

Analysis of financial results is provided to enable a reader to assess BDC's results of operations and financial condition for the three-month and nine-month periods ended December 31, 2017, compared to the corresponding periods of the prior fiscal year. This analysis also includes comments about significant variances from BDC's fiscal 2018–22 Corporate Plan, when applicable.

BDC currently reports on five business segments: Financing, Growth & Transition Capital, Venture Capital, Advisory Services and Venture Capital Action Plan (VCAP). In past years, Financing and Securitization were presented as separate segments. Starting in fiscal 2018, BDC no longer reports on Securitization separately and presents asset-backed securities (ABS) as a product of Financing.

For fiscal 2018, BDC has adopted a refined methodology to recharge shared corporate services to business lines, as indicated in its fiscal 2018-22 Corporate Plan. All amounts are in Canadian dollars, unless otherwise specified, and are based on unaudited condensed quarterly Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS).

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

Consolidated net income

	Three months ended December 31		Nine months ended December 31	
(\$ in millions)	F2018	F2017	F2018	F2017
Financing	154.9	102.5	462.4	339.2
Growth & Transition Capital	1.8	13.1	50.3	41.0
Venture Capital	11.9	10.6	107.8	(16.7)
Advisory Services	(12.1)	(11.9)	(37.4)	(34.1)
Venture Capital Action Plan	0.8	1.9	11.1	(7.3)
Net income	157.3	116.2	594.2	322.1
Net income attributable to:				
BDC's shareholder	156.1	115.9	554.9	323.0
Non-controlling interests	1.2	0.3	39.3	(0.9)
Net income	157.3	116.2	594.2	322.1

Three and nine months ended December 31

For the quarter ended December 31, 2017, BDC recorded strong consolidated net income of \$157.3 million, comprising \$156.1 million attributable to BDC's shareholder and net income of \$1.2 million attributable to non-controlling interests. This compared to \$116.2 million in consolidated net income for the same period last year, of which net income of \$0.3 million was attributable to non-controlling interests.

BDC's consolidated net income was \$594.2 million for the nine months ended December 31, 2017, significantly higher than the \$322.1 million recorded for the same period last year.



The increase compared to last year, for both the quarter and year-to-date results, was mostly attributable to Venture Capital's solid results, Financing portfolio growth and lower provision for credit losses.

As at December 31, 2017, BDC had exceeded its Corporate Plan annual net income target of \$486 million.

Consolidated comprehensive income

(\$ in millions)	Three months ended December 31		Nine months ended December 31	
	F2018	F2017	F2018	F2017
Net income	157.3	116.2	594.2	322.1
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on available-for-sale assets	-	(1.0)	(3.4)	(2.0)
Net change in unrealized gains (losses) on cash flow hedges	0.3	1.4	-	1.1
Total items that may be reclassified subsequently to net income	0.3	0.4	(3.4)	(0.9)
Items that will not be reclassified to net income				
Remeasurements of net defined benefit asset or liability	(26.9)	184.9	(10.9)	107.6
Other comprehensive income (loss)	(26.6)	185.3	(14.3)	106.7
Total comprehensive income	130.7	301.5	579.9	428.8
Total comprehensive income attributable to:				
BDC's shareholder	129.5	301.2	540.6	429.7
Non-controlling interests	1.2	0.3	39.3	(0.9)
Total comprehensive income	130.7	301.5	579.9	428.8

Three and nine months ended December 31

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

BDC recorded other comprehensive loss of \$26.6 million and \$14.3 million, respectively, for the third quarter and the nine-month periods ended December 31, 2017, mainly due to lower discount rates used to value the net defined benefit liability, partially offset by higher returns on pension plan assets than forecasted.



Financing results

(\$ in millions)	Three months ended December 31		Nine months ended December 31	
	F2018	F2017	F2018	F2017
Net interest and fee income	294.5	269.7	853.6	775.4
Provision for credit losses	(38.4)	(64.3)	(97.9)	(137.4)
Net gains (losses) on investments and other financial instruments	0.7	0.3	1.6	0.8
Income before operating and administrative expenses	256.8	205.7	757.3	638.8
Operating and administrative expenses	101.9	103.2	294.9	299.6
Net income from Financing	154.9	102.5	462.4	339.2

As % of average portfolio	Three months ended December 31		Nine months ended December 31	
	F2018	F2017	F2018	F2017
Net interest and fee income	4.8	4.8	4.8	4.7
Provision for credit losses	(0.6)	(1.1)	(0.5)	(0.8)
Net gains (losses) on investments and other financial instruments	-	-	-	-
Income before operating and administrative expenses	4.2	3.7	4.3	3.9
Operating and administrative expenses	1.7	1.8	1.6	1.8
Net income from Financing	2.5	1.9	2.7	2.1

Three months and nine months ended December 31

Financing's net income was \$154.9 million for the third quarter of fiscal 2018 and \$462.4 million for the nine-month period ended December 31, 2017, compared to \$102.5 million and \$339.2 million for the same periods last year. The increase in profitability for both periods of fiscal 2018 was mainly due to higher net interest and fee income, as a main result of strong portfolio growth, and lower provision for credit losses due to the good performance of the portfolio. As a percentage of average portfolio, net interest and fee income reached 4.8% for the nine months ended December 31, 2017, higher than the 4.7% recorded in the same period last year.

Operating and administrative expenses for both periods were lower than last year, despite portfolio growth, bringing the operating expenses as a percentage of the average portfolio from 1.8% in fiscal 2017 to 1.6% on a year-to-date basis. Lower shared costs as a result of the revised methodology for recharging shared corporate services to business lines mainly explained the decrease in operating expenses.



Growth & Transition Capital results

	Three months ended December 31		Nine months ended December 31	
	F2018	F2017	F2018	F2017
(\$ in millions)				
Net revenue on investments	25.8	25.8	78.4	75.2
Net change in unrealized appreciation (depreciation) of investments	(14.2)	(2.8)	1.0	(8.9)
Income before operating and administrative expenses	11.6	23.0	79.4	66.3
Operating and administrative expenses	9.8	9.9	29.1	25.3
Net income from Growth & Transition Capital	1.8	13.1	50.3	41.0
Net income attributable to:				
BDC's shareholder	1.5	12.9	41.7	40.5
Non-controlling interests	0.3	0.2	8.6	0.5
Net income from Growth & Transition Capital	1.8	13.1	50.3	41.0

	Three months ended December 31		Nine months ended December 31	
	F2018	F2017	F2018	F2017
As % of average portfolio				
Net revenue on investments	10.3	12.3	11.0	12.4
Net change in unrealized appreciation (depreciation) of investments	(5.7)	(1.3)	0.1	(1.5)
Income before operating and administrative expenses	4.6	11.0	11.1	10.9
Operating and administrative expenses	3.9	4.7	4.1	4.2
Net income from Growth & Transition Capital	0.7	6.3	7.0	6.7
Net income attributable to:				
BDC's shareholder	0.6	6.2	5.7	6.6
Non-controlling interests	0.1	0.1	1.2	0.1
Net income from Growth & Transition Capital	0.7	6.3	6.9	6.7

Three and nine months ended December 31

Net income after nine months reached \$50.3 million, a strong result compared to \$41.0 million recorded for the same period of fiscal 2017. Results for the quarter were affected by higher net fair value depreciation of investments.

Net revenue on investments was stable for the quarter and slightly higher for the nine-month period when compared to last year. While net interest income increased as a result of portfolio growth, net realized gains (losses) on investments, as well as fee and other income, were slightly lower than those in the corresponding periods last year, affecting net revenue on investments.



After nine months, Growth & Transition Capital recorded a net change in unrealized appreciation of \$1.0 million, a strong result compared to last year, reflecting the good quality of the portfolio. During the third quarter of fiscal 2018, the increase in fair value depreciation was mainly driven by a few large accounts.

(\$ in millions)	Three months ended December 31		Nine months ended December 31	
	F2018	F2017	F2018	F2017
Net fair value appreciation (depreciation)	(16.5)	(0.6)	(5.6)	(2.2)
Reversal of net fair value depreciation (appreciation) due to realized income and write-offs	2.3	(2.2)	6.6	(6.7)
Net change in unrealized appreciation (depreciation) of investments	(14.2)	(2.8)	1.0	(8.9)

Operating and administrative expenses amounted to \$29.1 million for the nine-month period ended December 31, 2017, higher than the \$25.3 million recorded last year. The increase was mainly due to a revised methodology for recharging shared corporate services to business lines. However, as a percentage of the average portfolio, operating and administrative expenses were lower for both the quarter and nine-month period ended December 31, 2017, as BDC continued to focus on efficiency.

Venture Capital results

(\$ in millions)	Three months ended December 31		Nine months ended December 31	
	F2018	F2017	F2018	F2017
Net revenue (loss) on investments	9.7	4.5	(22.0)	6.7
Net change in unrealized appreciation (depreciation) of investments	3.1	3.0	176.5	(20.3)
Net unrealized foreign exchange gains (losses) on investments	4.9	9.2	(29.6)	14.1
Net gains (losses) on other financial instruments	-	(0.2)	0.6	(0.4)
Income before operating and administrative expenses	17.7	16.5	125.5	0.1
Operating and administrative expenses	5.8	5.9	17.7	16.8
Net income (loss) from Venture Capital	11.9	10.6	107.8	(16.7)
Net income attributable to:				
BDC's shareholder	11.0	10.5	77.1	(15.3)
Non-controlling interests	0.9	0.1	30.7	(1.4)
Net income (loss) from Venture Capital	11.9	10.6	107.8	(16.7)



Three and nine months ended December 31

During the third quarter of fiscal 2018, Venture Capital recorded a net income of \$11.9 million, compared to a net income of \$10.6 million for the same period last year. For the nine months ended December 31, 2017, net income was \$107.8 million, a strong result compared to the net loss of \$16.7 million recorded for the same period last year. Fiscal 2018 year-to-date net income was driven by a significant net change in unrealized appreciation of investments.

The third quarter of fiscal 2018 was positively affected by net revenue on investments of \$9.7 million, compared to \$4.5 million recorded last year. For the nine-month period, Venture Capital recorded higher write-offs, mainly explaining the net loss on investments of \$22.0 million recorded in fiscal 2018, compared to net revenue of \$6.7 million recorded last year. During the third quarter and nine-month period of fiscal 2018, proceeds received from the divestiture of investments were \$44.1 million and \$105.9 million, respectively, compared to \$41.5 million and \$87.3 million received for the same periods of fiscal 2017. In addition, two of our investees completed an initial public offering in fiscal 2018.

Venture Capital recorded a net change in unrealized appreciation of investments of \$3.1 million for the third quarter and \$176.5 million for the nine-month period of fiscal 2018. During the second quarter of fiscal 2018, one of BDC's investees accepted a significant offer for a partial sale of its holding. BDC increased the fair value of its remaining holding, a portion of which was attributed to non-controlling interests.

(\$ in millions)	Three months ended December 31		Nine months ended December 31	
	F2018	F2017	F2018	F2017
Net fair value appreciation (depreciation)	0.4	(3.7)	124.5	(31.8)
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	2.7	6.7	52.0	11.5
Net change in unrealized appreciation (depreciation) of investments	3.1	3.0	176.5	(20.3)

Net unrealized foreign exchange losses on investments in the nine-month period were due to foreign exchange fluctuations on the U.S. dollar and were higher than last year due to a stronger Canadian dollar.

On a year-to-date basis, operating and administrative expenses were \$17.7 million, higher than those recorded for the same period of fiscal 2017, mainly due to a revised methodology for recharging shared corporate services to business lines.



Advisory Services results

(\$ in millions)	Three months ended December 31		Nine months ended December 31	
	F2018	F2017	F2018	F2017
Revenue	4.9	5.5	14.2	14.6
Delivery expenses ⁽¹⁾	3.4	3.0	9.9	8.4
Gross operating margin	1.5	2.5	4.3	6.2
Operating and administrative expenses	13.6	14.4	41.7	40.3
Net loss from Advisory Services	(12.1)	(11.9)	(37.4)	(34.1)

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

Three and nine months ended December 31

The offering under Advisory Services is considered an investment in entrepreneurs. As such, a net loss of \$12.1 million was recorded for the third quarter of fiscal 2018, compared to a net loss of \$11.9 million recorded for the same quarter last year. Cumulative net loss for the nine-month period ended December 31, 2017, was \$37.4 million, compared to \$34.1 million for the same period last year. This was higher than last year, as BDC continued to invest to develop its non-financial services, including new offerings for Canada's high-impact firms (Growth Driver Program), the Accelerated Growth Service (AGS) program and an enhanced offering to help businesses expand internationally.

Advisory Services recorded revenue of \$4.9 million in the third quarter of fiscal 2018 and \$14.2 million for the nine-month period ended December 31, 2017, slightly lower than the \$5.5 million and \$14.6 million, respectively, for the same periods last year.

Gross operating margin, at \$4.3 million for the nine months ended December 31, 2017, was lower than the \$6.2 million recorded for the same period last year. This was mainly due to delivery expenses related to the implementation of the new Growth Driver Program.

Operating and administrative expenses were \$13.6 million and \$41.7 million for the three-month and nine-month periods ended December 31, 2017, respectively, compared to \$14.4 million and \$40.3 million for the same periods of fiscal 2017. The increase from the nine-month period last year was mainly a result of a revised methodology for recharging shared corporate services to business lines.



Venture Capital Action Plan results

(\$ in millions)	Three months ended December 31		Nine months ended December 31	
	F2018	F2017	F2018	F2017
Net revenue (loss) on investments	-	-	0.1	-
Net change in unrealized appreciation (depreciation) of investments	1.0	2.0	12.0	(6.9)
Net unrealized foreign exchange gains (losses) on investments	-	0.1	(0.2)	0.1
Income (loss) before operating and administrative expenses	1.0	2.1	11.9	(6.8)
Operating and administrative expenses	0.2	0.2	0.8	0.5
Net income (loss) from Venture Capital Action Plan	0.8	1.9	11.1	(7.3)

Three and nine months ended December 31

During the third quarter of fiscal 2018, Venture Capital Action Plan (VCAP) recorded a net income of \$0.8 million, compared to net income of \$1.9 million for the same period last year. For the nine-month period ended December 31, 2017, VCAP recorded a net income of \$11.1 million, compared to a net loss of \$7.3 million for the same period last year.

Strong fiscal 2018 results were explained by a net change in unrealized appreciation of underlying funds. The fiscal 2017 net change in unrealized depreciation of investments was affected by a decrease in the fair value of underlying funds, as well as by expenses related to the closing of two funds of funds.

Operating and administrative expenses of \$0.8 million for the nine-month period ending December 31, 2017 were slightly higher than those recorded in the same period of fiscal 2017, mainly due to higher staff levels to support portfolio growth.



Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows

As at December 31, 2017, total BDC assets amounted to \$27.3 billion, an increase of \$2.0 billion from March 31, 2017, largely due to the \$1.5 billion increase in our loans portfolio, combined with a \$0.2 billion increase in the subordinate financing investment portfolio, and a \$0.3 billion increase in the venture capital and VCAP investment portfolios.

At \$23.2 billion, the loans portfolio represented BDC's largest asset (\$23.9 billion in gross portfolio less a \$0.7 billion allowance for credit losses). The gross loans portfolio grew by 6.7% in the nine months after March 31, 2017, reflecting a strong level of activity.

BDC's investment portfolios, which include the subordinate financing, venture capital and VCAP portfolios, stood at \$2.6 billion, compared to \$2.2 billion as at March 31, 2017, with subordinate financing investments exceeding \$1 billion as at December 31, 2017. The asset-backed securities portfolio stood at \$498.5 million, compared to \$518.1 million as at March 31, 2017.

Derivative assets of \$19.6 million and derivative liabilities of \$1.5 million reflected the fair value of derivative financial instruments as at December 31, 2017. Net derivative fair value decreased by \$1.4 million since March 31, 2017, explained by maturities and a decrease in fair value.

As at December 31, 2017, BDC recorded a net defined benefit asset of \$119.3 million related to the registered pension plan and a net defined benefit liability of \$246.7 million for the other plans, for a total net defined benefit liability of \$127.4 million. This represented an increase of \$17.0 million, compared to the total net defined benefit liability as at March 31, 2017, primarily as a result of remeasurement losses recorded in fiscal 2018. 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 \$685.5 million as at December 31, 2017, compared to \$649.2 million as at March 31, 2017. For the nine-month period ended December 31, 2017, operating activities used \$1,051.4 million, mainly to support the growth of the loans portfolio. Cash flows used by investing activities amounted to \$298.6 million, reflecting net disbursements of subordinate financing, venture capital and VCAP investments. Financing activities provided \$1,386.3 million in cash flow, mainly as a result of the issuance of short-term notes.

As at December 31, 2017, BDC funded its portfolios and liquidities with borrowings of \$20.3 billion and total equity of \$6.6 billion. Borrowings comprised \$20.2 billion in short-term notes and \$0.1 billion in long-term notes.

Guarantees totalled \$46.3 million as at December 31, 2017, compared to \$341.8 million as at March 31, 2017, following the expiration of a \$300 million facility.

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 as at December 31, 2017, reached its target capital ratio of 134%, compared to 130% as at March 31, 2017.



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
February 7, 2018



Consolidated Statement of Financial Position

(unaudited)

(in thousands of Canadian dollars)	Notes	December 31, 2017	March 31, 2017
ASSETS			
Cash and cash equivalents		685,485	649,168
Derivative assets		19,621	21,332
Loans and investments			
Asset-backed securities	6	498,463	518,088
Loans	7	23,246,574	21,752,511
Subordinate financing investments	8	1,037,207	860,448
Venture capital investments	9	1,188,137	1,015,713
Venture capital action plan investments	10	384,588	301,541
Total loans and investments		26,354,969	24,448,301
Property and equipment		41,562	29,103
Intangible assets		37,171	33,148
Net defined benefit asset		119,338	121,098
Other assets		17,934	14,615
Total assets		27,276,080	25,316,765
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities		93,462	119,035
Derivative liabilities		1,463	1,789
Borrowings			
Short-term notes		20,179,253	18,809,436
Long-term notes		141,073	167,391
Total borrowings		20,320,326	18,976,827
Net defined benefit liability		246,692	231,498
Other liabilities		52,398	48,321
Total liabilities		20,714,341	19,377,470
Equity			
Share capital	11	2,477,900	2,413,400
Contributed surplus		27,778	27,778
Retained earnings		4,017,657	3,473,612
Accumulated other comprehensive income		(757)	2,710
Equity attributable to BDC's shareholder		6,522,578	5,917,500
Non-controlling interests		39,161	21,795
Total equity		6,561,739	5,939,295
Total liabilities and equity		27,276,080	25,316,765

Guarantees (Note 13)

Commitments (Note 14)

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



Consolidated Statement of Income

(unaudited)

(in thousands of Canadian dollars)	Three months ended December 31		Nine months ended December 31	
	2017	2016	2017	2016
Interest income	351,509	302,633	995,311	871,404
Interest expense	40,857	20,487	93,567	60,323
Net interest income	310,652	282,146	901,744	811,081
Net realized gains (losses) on investments	8,039	4,109	(19,649)	7,273
Revenue from Advisory Services	4,844	5,426	14,041	14,538
Fee and other income	11,425	13,742	28,400	38,986
Net realized gains (losses) on other financial instruments	162	37	1,407	2,100
Net revenue	335,122	305,460	925,943	873,978
Provision for credit losses	(38,438)	(64,336)	(97,928)	(137,369)
Net change in unrealized appreciation (depreciation) of investments	(9,904)	2,158	189,761	(36,134)
Net unrealized foreign exchange gains (losses) on investments	4,970	9,336	(29,824)	14,202
Net unrealized gains (losses) on other financial instruments	278	(25)	334	(1,730)
Income before operating and administrative expenses	292,028	252,593	988,286	712,947
Salaries and benefits	92,521	94,049	279,417	270,670
Premises and equipment	10,089	10,125	30,452	30,056
Other expenses	32,144	32,196	84,178	90,118
Operating and administrative expenses	134,754	136,370	394,047	390,844
Net income	157,274	116,223	594,239	322,103
Net income attributable to:				
BDC's shareholder	156,057	115,882	554,902	322,927
Non-controlling interests	1,217	341	39,337	(824)
Net income	157,274	116,223	594,239	322,103

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



Consolidated Statement of Comprehensive Income

(unaudited)

(in thousands of Canadian dollars)	Three months ended December 31		Nine months ended December 31	
	2017	2016	2017	2016
Net income	157,274	116,223	594,239	322,103
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on available-for-sale assets	11	(1,005)	(3,498)	(2,027)
Net unrealized gains (losses) on cash flow hedges	590	1,409	770	1,226
Reclassification to net income of losses (gains) on cash flow hedges	(242)	(54)	(739)	(155)
Net change in unrealized gains (losses) on cash flow hedges	348	1,355	31	1,071
Total items that may be reclassified subsequently to net income	359	350	(3,467)	(956)
Items that will not be reclassified to net income				
Remeasurements of net defined benefit asset or liability	(26,867)	184,946	(10,857)	107,631
Other comprehensive income (loss)	(26,508)	185,296	(14,324)	106,675
Total comprehensive income	130,766	301,519	579,915	428,778
Total comprehensive income attributable to:				
BDC's shareholder	129,549	301,178	540,578	429,602
Non-controlling interests	1,217	341	39,337	(824)
Total comprehensive income	130,766	301,519	579,915	428,778

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



Consolidated Statement of Changes in Equity

For the three-month period ended December 31
(unaudited)

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

(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
				Available-for-sale assets	Cash flow hedges	Total			
Balance as at September 30, 2016	2,288,400	27,778	3,064,564	(65)	2,571	2,506	5,383,248	23,197	5,406,445
Total comprehensive income									
Net income			115,882				115,882	341	116,223
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				(1,005)		(1,005)	(1,005)		(1,005)
Net change in unrealized gains (losses) on cash flow hedges					1,355	1,355	1,355		1,355
Remeasurements of net defined benefit asset or liability			184,946				184,946		184,946
Other comprehensive income (loss)	-	-	184,946	(1,005)	1,355	350	185,296	-	185,296
Total comprehensive income	-	-	300,828	(1,005)	1,355	350	301,178	341	301,519
Issuance of shares	125,000						125,000		125,000
Distributions to non-controlling interests								(2,301)	(2,301)
Capital injections from non-controlling interests								800	800
Transactions with owner, recorded directly in equity	125,000	-	-	-	-	-	125,000	(1,501)	123,499
Balance as at December 31, 2016	2,413,400	27,778	3,365,392	(1,070)	3,926	2,856	5,809,426	22,037	5,831,463

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



Consolidated Statement of Changes in Equity

For the nine-month period ended December 31
(unaudited)

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

(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
				Available-for-sale assets	Cash flow hedges	Total			
Balance as at March 31, 2016	2,288,400	27,778	3,003,483	957	2,855	3,812	5,323,473	26,046	5,349,519
Total comprehensive income									
Net income			322,927				322,927	(824)	322,103
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				(2,027)		(2,027)	(2,027)		(2,027)
Net change in unrealized gains (losses) on cash flow hedges					1,071	1,071	1,071		1,071
Remeasurements of net defined benefit asset or liability			107,631				107,631		107,631
Other comprehensive income (loss)	-	-	107,631	(2,027)	1,071	(956)	106,675	-	106,675
Total comprehensive income	-	-	430,558	(2,027)	1,071	(956)	429,602	(824)	428,778
Issuance of shares	125,000						125,000		125,000
Dividends on common shares			(68,649)				(68,649)		(68,649)
Distributions to non-controlling interests								(4,565)	(4,565)
Capital injections from non-controlling interests								1,380	1,380
Transactions with owner, recorded directly in equity	125,000	-	(68,649)	-	-	-	56,351	(3,185)	53,166
Balance as at December 31, 2016	2,413,400	27,778	3,365,392	(1,070)	3,926	2,856	5,809,426	22,037	5,831,463



Consolidated Statement of Cash Flows

(unaudited)

(in thousands of Canadian dollars)	Three months ended		Nine months ended	
	December 31		December 31	
	2017	2016	2017	2016
Operating activities				
Net income	157,274	116,223	594,239	322,103
Adjustments to determine net cash flows				
Interest income	(351,509)	(302,633)	(995,311)	(871,404)
Interest expense	40,857	20,487	93,567	60,323
Net realized losses (gains) on investments	(8,039)	(4,109)	19,649	(7,273)
Provision for credit losses	38,438	64,336	97,928	137,369
Net change in unrealized depreciation (appreciation) on investments	9,904	(2,158)	(189,761)	36,134
Net unrealized foreign exchange losses (gains) on investments	(4,970)	(9,336)	29,824	(14,202)
Net unrealized losses (gains) on other financial instruments	(278)	25	(334)	1,730
Defined benefits funding below (in excess of) amounts expensed	6,915	7,445	6,096	12,575
Depreciation of property and equipment, and amortization of intangible assets	4,051	3,899	11,745	11,748
Other	(16,582)	(8,836)	5,194	(18,527)
Interest expense paid	(37,993)	(17,922)	(86,879)	(58,635)
Interest income received	338,994	285,062	953,493	840,440
Changes in operating assets and liabilities				
Net change in loans	(561,325)	(545,200)	(1,566,076)	(1,685,192)
Net change in accounts payable and accrued liabilities	16,430	17,174	(25,573)	(6,187)
Net change in other assets and other liabilities	6,094	2,078	758	12,572
Net cash flows provided (used) by operating activities	(361,739)	(373,465)	(1,051,441)	(1,226,426)
Investing activities				
Disbursements for asset-backed securities	(84,008)	(65,787)	(239,424)	(182,958)
Repayments and proceeds on sale of asset-backed securities	56,150	62,352	255,501	178,167
Disbursements for subordinate financing investments	(119,690)	(71,112)	(322,691)	(219,182)
Repayments of subordinate financing investments	54,105	47,780	154,835	122,572
Disbursements for venture capital investments	(31,116)	(67,679)	(153,158)	(150,574)
Proceeds on sale of venture capital investments	44,142	41,497	105,872	87,316
Disbursements for venture capital action plan investments	(11,258)	(23,369)	(72,932)	(137,658)
Proceeds on sale of venture capital action plan investments	1,419	1,197	1,667	1,274
Acquisition of property and equipment	(7,666)	(2,997)	(17,415)	(6,710)
Acquisition of intangible assets	(3,972)	(1,036)	(10,812)	(1,394)
Net cash flows provided (used) by investing activities	(101,894)	(79,154)	(298,557)	(309,147)
Financing activities				
Net change in short-term notes	420,036	337,020	1,364,961	1,636,226
Repayment of long-term notes	(4,700)	(23,500)	(21,175)	(164,349)
Distributions to non-controlling interests	(1,607)	(2,301)	(22,763)	(4,565)
Capital injections from non-controlling interests	-	800	792	1,380
Issue of common shares	64,500	125,000	64,500	125,000
Dividends paid on common shares	-	-	-	(68,649)
Net cash flows provided (used) by financing activities	478,229	437,019	1,386,315	1,525,043
Net increase (decrease) in cash and cash equivalents	14,596	(15,600)	36,317	(10,530)
Cash and cash equivalents at beginning of period	670,889	685,163	649,168	680,093
Cash and cash equivalents at end of period	685,485	669,563	685,485	669,563

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



Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)

1.

BDC General Description

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

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

2.

Basis of Preparation

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

BDC's condensed quarterly Consolidated Financial Statements follow the same basis of preparation as our audited Consolidated Financial Statements for the year ended March 31, 2017. For complete information on the basis of preparation, refer to page 61 of our 2017 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, 2018. If BDC changes the application of these policies, it may result in a restatement of these condensed quarterly Consolidated Financial Statements.

These condensed quarterly Consolidated Financial Statements were approved for issue by the Board of Directors on February 7, 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, 2017. 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 2017 Annual Report and the accompanying notes, as set out in pages 60 to 119 of our 2017 Annual Report.

4.

Significant Accounting Judgements, Estimates and Assumptions

Preparation of the condensed quarterly 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.

For information about the significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the condensed quarterly Consolidated Financial Statements, refer to page 71 of our 2017 Annual Report.



5.

Classification and Fair Value of Financial Instruments

Classification of financial instruments

The following tables summarize the classification of BDC's financial instruments as at December 31, 2017, and March 31, 2017.

December 31, 2017								
	Note	Measured at fair value				Measured at amortized cost		Total
		FVTPL ⁽¹⁾				Loans and receivables	Financial liabilities	
		Held-for-trading	Designated as at FVTPL	Available-for-sale	Cash flow hedges			
Financial assets								
Cash and cash equivalents					685,485		685,485	
Derivative assets		17,464	7,801	490,662	2,157		19,621	
Asset-backed securities	6						498,463	
Loans	7					23,246,574	23,246,574	
Subordinate financing investments	8		1,037,207				1,037,207	
Venture capital investments	9		1,188,137				1,188,137	
Venture capital action plan investments	10		384,588				384,588	
Other assets ⁽²⁾						8,576	8,576	
Total financial assets		17,464	2,617,733	490,662	2,157	23,940,635	-	27,068,651
Financial liabilities								
Accounts payable and accrued liabilities ⁽²⁾						93,031	93,031	
Derivative liabilities		140			1,323		1,463	
Short-term notes						20,179,253	20,179,253	
Long-term notes			141,073				141,073	
Other liabilities ⁽²⁾						39,967	39,967	
Total financial liabilities		140	141,073	-	1,323	-	20,312,251	20,454,787

March 31, 2017								
	Note	Measured at fair value				Measured at amortized cost		Total
		FVTPL ⁽¹⁾				Loans and receivables	Financial liabilities	
		Held-for-trading	Designated as at FVTPL	Available-for-sale	Cash flow hedges			
Financial assets								
Cash and cash equivalents						649,168	649,168	
Derivative assets		21,332					21,332	
Asset-backed securities	6		10,048	508,040			518,088	
Loans	7					21,752,511	21,752,511	
Subordinate financing investments	8		860,448				860,448	
Venture capital investments	9		1,015,713				1,015,713	
Venture capital action plan investments	10		301,541				301,541	
Other assets ⁽²⁾						6,231	6,231	
Total financial assets		21,332	2,187,750	508,040	-	22,407,910	-	25,125,032
Financial liabilities								
Accounts payable and accrued liabilities						119,035	119,035	
Derivative liabilities		1,789					1,789	
Short-term notes						18,809,436	18,809,436	
Long-term notes			161,785			5,606	167,391	
Other liabilities ⁽²⁾						38,786	38,786	
Total financial liabilities		1,789	161,785	-	-	-	18,972,863	19,136,437

⁽¹⁾ Fair value through profit or loss.

⁽²⁾ Certain items within the other assets, accounts payable and accrued liabilities, and other liabilities categories on the Consolidated Statement of Financial Position are not considered to be financial instruments.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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; and
- level 3—fair values based on valuation techniques with one or more significant unobservable market inputs.

There were 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.

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

	Fair value measurements using			December 31, 2017
	Level 1	Level 2	Level 3	Total fair value
	Assets			
Derivative assets		19,621		19,621
Asset-backed securities		498,463		498,463
Subordinate financing investments	3,222		1,033,985	1,037,207
Venture capital investments	147,286		1,040,851	1,188,137
Venture capital action plan investments			384,588	384,588
	150,508	518,084	2,459,424	3,128,016
Liabilities				
Derivative liabilities		1,463		1,463
Long-term notes designated as at FVTPL ⁽¹⁾		141,073		141,073
	-	142,536	-	142,536

	Fair value measurements using			March 31, 2017
	Level 1	Level 2	Level 3	Total fair value
	Assets			
Derivative assets		21,332		21,332
Asset-backed securities		518,088		518,088
Subordinate financing investments	1,405		859,043	860,448
Venture capital investments	13,475		1,002,238	1,015,713
Venture capital action plan investments			301,541	301,541
	14,880	539,420	2,162,822	2,717,122
Liabilities				
Derivative liabilities		1,789		1,789
Long-term notes designated as at FVTPL ⁽¹⁾		161,785		161,785
	-	163,574	-	163,574

⁽¹⁾ Fair value through profit or loss.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

	December 31, 2017			
	Subordinate financing investments	Venture capital investments	Venture capital action plan investments	Total
Fair value as at April 1, 2017	859,043	1,002,238	301,541	2,162,822
Net realized gains (losses) on investments	1,912	(22,361)	-	(20,449)
Net change in unrealized appreciation (depreciation) of investments	2,034	150,468	12,000	164,502
Net unrealized foreign exchange gains (losses) on investments	-	(28,508)	(218)	(28,726)
Disbursements for investments	322,861	139,438	72,932	535,231
Repayments of investments and other	(148,643)	(103,721)	(1,667)	(254,031)
Transfers from level 3 to level 1	(3,222)	(96,703)	-	(99,925)
Fair value as at December 31, 2017	1,033,985	1,040,851	384,588	2,459,424

	March 31, 2017			
	Subordinate financing investments	Venture capital investments	Venture capital action plan investments	Total
Fair value as at April 1, 2016	750,580	916,095	137,668	1,804,343
Net realized gains (losses) on investments	1,839	2,796	-	4,635
Net change in unrealized appreciation (depreciation) of investments	(18,400)	13,699	10,532	5,831
Net unrealized foreign exchange gains (losses) on investments	-	10,864	66	10,930
Disbursements for investments	286,486	180,719	157,794	624,999
Repayments of investments and other	(161,462)	(116,027)	(4,519)	(282,008)
Transfers from level 3 to level 1	-	(5,908)	-	(5,908)
Fair value as at March 31, 2017	859,043	1,002,238	301,541	2,162,822



6. Asset-Backed Securities

	December 31, 2017	March 31, 2017
Available-for-sale		
Principal amount	494,872	508,751
Cumulative fair value appreciation (depreciation)	(4,210)	(711)
Carrying value	490,662	508,040
Yield	2.14%	1.86%
Fair value through profit or loss		
Principal amount	7,851	10,010
Cumulative fair value appreciation (depreciation)	(50)	38
Carrying value	7,801	10,048
Yield	7.87%	6.94%
Asset-backed securities	498,463	518,088

No asset-backed securities were impaired as at December 31 or March 31, 2017.

7. Loans

The following tables summarize loans outstanding by contractual maturity date.

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	252,521	2,841,226	20,116,078	23,209,825	(411,000)		(411,000)	22,798,825
Impaired	30,634	117,752	596,267	744,653		(296,904)	(296,904)	447,749
Loans as at December 31, 2017	283,155	2,958,978	20,712,345	23,954,478	(411,000)	(296,904)	(707,904)	23,246,574

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	203,598	2,581,400	18,946,099	21,731,097	(396,000)	-	(396,000)	21,335,097
Impaired	23,222	143,872	551,202	718,296	-	(300,882)	(300,882)	417,414
Loans as at March 31, 2017	226,820	2,725,272	19,497,301	22,449,393	(396,000)	(300,882)	(696,882)	21,752,511

Allowance for credit losses

	December 31, 2017	March 31, 2017
Balance at beginning of period	696,882	605,724
Write-offs	(80,316)	(85,655)
Effect of discounting	(11,970)	(14,948)
Recoveries and other	5,380	12,216
	609,976	517,337
Provision for credit losses	97,928	179,545
Balance at end of period	707,904	696,882

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Concentrations of total loans outstanding

Geographic distribution	December 31, 2017	March 31, 2017
Newfoundland and Labrador	874,377	889,754
Prince Edward Island	64,891	60,087
Nova Scotia	558,140	547,775
New Brunswick	493,265	446,742
Quebec	7,509,444	7,040,483
Ontario	6,509,826	5,979,102
Manitoba	709,627	689,135
Saskatchewan	802,000	767,651
Alberta	3,527,086	3,381,974
British Columbia	2,761,760	2,515,417
Yukon	104,719	100,326
Northwest Territories and Nunavut	39,343	30,947
Total loans outstanding	23,954,478	22,449,393

Industry sector	December 31, 2017	March 31, 2017
Manufacturing	5,571,292	5,178,805
Wholesale and retail trade	4,514,698	4,314,423
Service industries	3,359,490	3,073,195
Tourism	2,956,717	2,772,742
Commercial properties	2,552,403	2,345,410
Construction	1,865,718	1,888,205
Transportation and storage	1,365,085	1,257,632
Resources	1,017,163	918,982
Other	751,912	699,999
Total loans outstanding	23,954,478	22,449,393



8. Subordinate Financing Investments

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

	Within 1 year	1 to 5 years	Over 5 years	Total cost	Total fair value
As at December 31, 2017	103,933	721,310	247,151	1,072,394	1,037,207
As at March 31, 2017	83,498	664,213	145,202	892,913	860,448

Concentrations of total subordinate financing investments

Geographic distribution	December 31, 2017		March 31, 2017	
	Fair value	Cost	Fair value	Cost
Newfoundland and Labrador	5,450	10,719	5,710	6,730
Nova Scotia	13,532	16,367	18,154	19,695
New Brunswick	31,440	27,821	30,421	27,630
Quebec	405,163	419,692	323,096	341,323
Ontario	349,266	348,321	310,532	310,909
Manitoba	6,118	5,613	7,195	5,856
Saskatchewan	40,558	43,089	18,091	18,181
Alberta	108,436	122,996	96,892	112,265
British Columbia	69,303	69,748	46,089	46,009
Yukon	3,106	3,165	3,264	3,210
Northwest Territories and Nunavut	4,835	4,863	1,004	1,105
Subordinate financing investments	1,037,207	1,072,394	860,448	892,913

Industry sector	December 31, 2017		March 31, 2017	
	Fair value	Cost	Fair value	Cost
Manufacturing	302,104	309,643	267,839	280,376
Service industries	285,639	294,185	218,745	228,135
Wholesale and retail trade	194,929	201,114	156,008	158,579
Construction	65,579	65,611	63,388	60,859
Information industries	59,787	60,122	34,749	35,060
Resources	53,927	73,234	62,298	75,313
Transportation and storage	27,229	31,970	14,076	14,404
Educational services	9,646	9,555	10,133	10,076
Tourism	8,386	8,605	9,589	9,981
Commercial properties	1,032	1,006	-	-
Other	28,949	17,349	23,623	20,130
Subordinate financing investments	1,037,207	1,072,394	860,448	892,913

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



9.

Venture Capital Investments

BDC maintains a high-risk portfolio of venture capital investments that is focused on early-stage and fast-growing technology companies having promising positions in their respective marketplaces and strong growth potential. Venture capital investments, which are held for a longer term, are non-current assets.

The following table presents a summary of the venture capital portfolio, by type of investment.

Investment type	December 31, 2017		March 31, 2017	
	Fair value	Cost	Fair value	Cost
Common shares	192,160	125,461	53,814	84,690
Preferred shares	501,467	391,363	523,231	452,858
Debentures	29,832	32,019	27,028	34,905
Total direct investments	723,459	548,843	604,073	572,453
Funds	464,678	361,554	411,640	312,450
Venture capital investments	1,188,137	910,397	1,015,713	884,903

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

Industry sector	December 31, 2017		March 31, 2017	
	Fair value	Cost	Fair value	Cost
Information technology	290,733	237,643	253,274	218,443
Biotechnology and pharmacology	173,882	85,868	159,309	129,523
Communications	58,505	52,344	53,710	51,891
Industrial	57,250	15,197	15,755	16,783
Electronics	56,561	56,239	63,289	79,060
Energy	36,149	32,295	11,668	9,762
Medical and health	29,417	53,049	25,001	51,407
Other	20,962	16,208	22,067	15,584
Total direct investments	723,459	548,843	604,073	572,453



10.

Venture Capital Action Plan Investments

Venture Capital Action Plan (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.

As at December 31, 2017, the fair value of venture capital action plan investments stood at \$384,588 (\$301,541 as at March 31, 2017), and their cost was \$362,445 (\$291,180 as at March 31, 2017).

11.

Share Capital

An unlimited number of common shares, having a par value of \$100 each, is authorized. As at December 31, 2017, there were 24,779,000 common shares outstanding (24,134,000 as at March 31, 2017).

During the three-month period ended December 31, 2017, BDC issued 645,000 common shares worth \$64.5 million related to VCAP.

Statutory limitations

As per the BDC Act, the debt-to-equity ratio cannot exceed 12:1. 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 exceed \$3.0 billion. As at December 31 and March 31, 2017, BDC met both of these statutory limitation requirements.

In December 2017, the *Budget Implementation Act, 2017*, raised BDC's paid-in capital limit from \$3.0 billion to \$4.5 billion.

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.

BDC's internal capital ratio as at December 31, 2017, reached its target capital ratio of 134%, compared to 130% as at March 31, 2017.



12.

Segmented Information

BDC has five reportable segments, as described below, which are the Bank's business lines. Each business line offers different products and services, and is managed separately, based on BDC's management and internal reporting structure.

In past years, Financing and Securitization were presented as separate segments. Starting in fiscal 2018, BDC no longer reports on Securitization separately and presents asset-backed securities as a product of Financing.

The following summary describes the operations of 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. These securities are backed by vehicle and equipment loans and leases, as well as dealer floor plan loans. BDC also provides fully secured loans to small and medium-sized finance and leasing companies.
- **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.
- **Advisory Services** provides consulting services, supports high-impact firms, and provides group programs and other services related to business activities.
- **Venture Capital Action Plan** 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.

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 internal capital adequacy assessment process 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 present financial information regarding the results of each reportable segment.

	Three months ended December 31, 2017					
	BDC	Financing	Growth & Transition Capital	Venture Capital	Advisory Services	Venture Capital Action Plan
Interest income	351,509	329,205	22,304	-	-	-
Interest expense	40,857	39,360	1,497	-	-	-
Net interest income	310,652	289,845	20,807	-	-	-
Net realized gains (losses) on investments	8,039	-	(1,525)	9,564	-	-
Revenue from Advisory Services	4,844	-	-	-	4,844	-
Fee and other income	11,425	4,696	6,515	140	35	39
Net realized gains (losses) on other financial instruments	162	241	-	(79)	-	-
Net revenue (loss)	335,122	294,782	25,797	9,625	4,879	39
Provision for credit losses	(38,438)	(38,438)	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	(9,904)	199	(14,214)	3,151	-	960
Net unrealized foreign exchange gains (losses) on investments	4,970	-	-	4,942	-	28
Net unrealized gains (losses) on other financial instruments	278	278	-	-	-	-
Income (loss) before operating and administrative expenses	292,028	256,821	11,583	17,718	4,879	1,027
Salaries and benefits	92,521	68,879	7,992	4,144	11,289	217
Premises and equipment	10,089	8,064	513	416	1,077	19
Other expenses	32,144	24,958	1,315	1,204	4,646	21
Operating and administrative expenses	134,754	101,901	9,820	5,764	17,012	257
Net income (loss)	157,274	154,920	1,763	11,954	(12,133)	770
Net income (loss) attributable to:						
BDC's shareholder	156,057	154,920	1,487	11,013	(12,133)	770
Non-controlling interests	1,217	-	276	941	-	-
Net income (loss)	157,274	154,920	1,763	11,954	(12,133)	770
Business segment portfolio at end of period	26,354,969	23,753,686⁽¹⁾	1,028,558	1,188,137	-	384,588

⁽¹⁾ Financing's portfolio at the end of the period included \$23,246,574 in loans, \$498,463 in asset-backed securities and \$8,649 in subordinate financing investments.

	Three months ended December 31, 2016					
	BDC	Financing	Growth & Transition Capital	Venture Capital	Advisory Services	Venture Capital Action Plan
Interest income	302,633	283,763	18,870	-	-	-
Interest expense	20,487	19,476	1,011	-	-	-
Net interest income	282,146	264,287	17,859	-	-	-
Net realized gains (losses) on investments	4,109	-	390	3,719	-	-
Revenue from Advisory Services	5,426	-	-	-	5,426	-
Fee and other income	13,742	5,411	7,585	769	26	(49)
Net realized gains (losses) on other financial instruments	37	188	-	(151)	-	-
Net revenue (loss)	305,460	269,886	25,834	4,337	5,452	(49)
Provision for credit losses	(64,336)	(64,336)	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	2,158	(3)	(2,833)	2,988	-	2,006
Net unrealized foreign exchange gains (losses) on investments	9,336	30	-	9,238	-	68
Net unrealized gains (losses) on other financial instruments	(25)	69	-	(94)	-	-
Income (loss) before operating and administrative expenses	252,593	205,646	23,001	16,469	5,452	2,025
Salaries and benefits	94,049	70,490	8,603	3,958	10,864	134
Premises and equipment	10,125	8,165	425	414	1,107	14
Other expenses	32,196	24,503	823	1,456	5,397	17
Operating and administrative expenses	136,370	103,158	9,851	5,828	17,368	165
Net income (loss)	116,223	102,488	13,150	10,641	(11,916)	1,860
Net income (loss) attributable to:						
BDC's shareholder	115,882	102,488	12,909	10,541	(11,916)	1,860
Non-controlling interests	341	-	241	100	-	-
Net income (loss)	116,223	102,488	13,150	10,641	(11,916)	1,860
Business segment portfolio at end of period	23,934,824	21,831,139⁽¹⁾	844,547	991,928	-	267,210

⁽¹⁾ Financing's portfolio at the end of the period included \$21,318,538 in loans and \$512,601 in asset-backed securities.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Nine months ended
December 31, 2017

	BDC	Financing	Growth & Transition Capital	Venture Capital	Advisory Services	Venture Capital Action Plan
Interest income	995,311	932,140	63,171	-	-	-
Interest expense	93,567	89,812	3,755	-	-	-
Net interest income	901,744	842,328	59,416	-	-	-
Net realized gains (losses) on investments	(19,649)	228	2,534	(22,411)	-	-
Revenue from Advisory Services	14,041	-	-	-	14,041	-
Fee and other income	28,400	11,338	16,452	383	138	89
Net realized gains (losses) on other financial instruments	1,407	739	-	668	-	-
Net revenue (loss)	925,943	854,633	78,402	(21,360)	14,179	89
Provision for credit losses	(97,928)	(97,928)	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	189,761	224	1,001	176,536	-	12,000
Net unrealized foreign exchange gains (losses) on investments	(29,824)	-	-	(29,606)	-	(218)
Net unrealized gains (losses) on other financial instruments	334	382	-	(48)	-	-
Income (loss) before operating and administrative expenses	988,286	757,311	79,403	125,522	14,179	11,871
Salaries and benefits	279,417	206,973	24,078	12,690	35,000	676
Premises and equipment	30,452	24,266	1,533	1,388	3,214	51
Other expenses	84,178	63,644	3,469	3,589	13,405	71
Operating and administrative expenses	394,047	294,883	29,080	17,667	51,619	798
Net income (loss)	594,239	462,428	50,323	107,855	(37,440)	11,073
Net income (loss) attributable to:						
BDC's shareholder	554,902	462,428	41,666	77,175	(37,440)	11,073
Non-controlling interests	39,337	-	8,657	30,680	-	-
Net income (loss)	594,239	462,428	50,323	107,855	(37,440)	11,073
Business segment portfolio at end of period	26,354,969	23,753,686⁽¹⁾	1,028,558	1,188,137	-	384,588

⁽¹⁾ Financing's portfolio at the end of the period included \$23,246,574 in loans, \$498,463 in asset-backed securities and \$8,649 in subordinate financing investments.

Nine months ended
December 31, 2016

	BDC	Financing	Growth & Transition Capital	Venture Capital	Advisory Services	Venture Capital Action Plan
Interest income	871,404	815,531	55,873	-	-	-
Interest expense	60,323	57,236	3,087	-	-	-
Net interest income	811,081	758,295	52,786	-	-	-
Net realized gains (losses) on investments	7,273	-	4,221	3,052	-	-
Revenue from Advisory Services	14,538	-	-	-	14,538	-
Fee and other income	38,986	17,097	18,155	3,650	78	6
Net realized gains (losses) on other financial instruments	2,100	2,176	-	(76)	-	-
Net revenue (loss)	873,978	777,568	75,162	6,626	14,616	6
Provision for credit losses	(137,369)	(137,369)	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	(36,134)	(15)	(8,851)	(20,332)	-	(6,936)
Net unrealized foreign exchange gains (losses) on investments	14,202	27	-	14,080	-	95
Net unrealized gains (losses) on other financial instruments	(1,730)	(1,432)	-	(298)	-	-
Income (loss) before operating and administrative expenses	712,947	638,779	66,311	76	14,616	(6,835)
Salaries and benefits	270,670	204,466	21,916	12,190	31,747	351
Premises and equipment	30,056	24,478	1,236	1,315	2,987	40
Other expenses	90,118	70,629	2,153	3,265	14,030	41
Operating and administrative expenses	390,844	299,573	25,305	16,770	48,764	432
Net income (loss)	322,103	339,206	41,006	(16,694)	(34,148)	(7,267)
Net income (loss) attributable to:						
BDC's shareholder	322,927	339,206	40,462	(15,326)	(34,148)	(7,267)
Non-controlling interests	(824)	-	544	(1,368)	-	-
Net income (loss)	322,103	339,206	41,006	(16,694)	(34,148)	(7,267)
Business segment portfolio at end of period	23,934,824	21,831,139⁽¹⁾	844,547	991,928	-	267,210

⁽¹⁾ Financing's portfolio at the end of the period included \$21,318,538 in loans and \$512,601 in asset-backed securities.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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 \$46.3 million as at December 31, 2017 (\$341.8 million as at March 31, 2017) and the existing terms expire within 142 months (within 151 months as at March 31, 2017). However, the actual exposure as at December 31, 2017, was \$34.9 million (\$41.7 million as at March 31, 2017).

These financial guarantees were initially recognized at fair value on the date the guarantees were given. The fair value was considered nil, as all guarantees were agreed to on arm’s-length terms and no initial fee was received. In addition, no receivable for the future expected fees was recognized. Subsequent recognition of a liability will only occur when it becomes more likely than not that a client will not meet its contractual commitments. As at December 31, 2017, and March 31, 2017, there were no liabilities recognized in BDC’s Consolidated Statement of Financial Position related to these guarantees.

14.

Commitments

Loans

Undisbursed amounts of authorized loans totalled \$3,223,888 as at December 31, 2017 (\$507,428 fixed rate; \$2,716,460 floating rate) and are expected to be disbursed within the next 12 months. The weighted average effective interest rate was 4.7% on loan commitments (4.3% as at March 31, 2017). The following tables present undisbursed amounts of authorized loans, by location and industry.

Commitments, by geographic distribution	December 31, 2017	March 31, 2017
Newfoundland and Labrador	59,058	69,330
Prince Edward Island	16,971	447
Nova Scotia	75,628	36,820
New Brunswick	25,879	38,899
Quebec	1,011,680	830,057
Ontario	874,098	730,349
Manitoba	71,346	128,287
Saskatchewan	51,015	47,707
Alberta	559,310	650,029
British Columbia	476,224	320,360
Yukon	2,562	6,003
Northwest Territories and Nunavut	117	2,740
Total	3,223,888	2,861,028

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Commitments, by industry sector	December 31, 2017	March 31, 2017
Manufacturing	882,054	811,767
Wholesale and retail trade	421,120	343,864
Service industries	408,133	343,336
Tourism	333,081	297,127
Construction	310,434	267,307
Resources	286,835	352,548
Commercial properties	213,656	144,257
Transportation and storage	179,241	152,138
Other	189,334	148,684
Total	3,223,888	2,861,028

Subordinate financing

Undisbursed amounts of authorized investments totalled \$128,246 as at December 31, 2017 (\$53,974 fixed rate; \$74,272 floating rate) and are expected to be disbursed within the next 12 months. The weighted average effective interest rate (excluding non-interest returns) was 9.3% on investment commitments (9.7% at March 31, 2017). The following tables present undisbursed amounts of authorized investments, by location and industry.

Commitments, by geographic distribution	December 31, 2017	March 31, 2017
Newfoundland and Labrador	374	209
Nova Scotia	-	2,000
New Brunswick	200	1,500
Quebec	26,026	15,471
Ontario	69,975	43,422
Manitoba	1,000	2,000
Saskatchewan	3,780	3,890
Alberta	7,391	2,950
British Columbia	19,500	8,161
Total	128,246	79,603

Commitments, by industry sector	December 31, 2017	March 31, 2017
Manufacturing	62,428	25,748
Service industries	33,616	25,856
Wholesale and retail trade	9,636	12,090
Information industries	8,200	6,059
Construction	5,500	4,900
Resources	4,366	2,100
Tourism	2,500	750
Transportation and storage	2,000	2,100
Total	128,246	79,603

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Venture capital

Undisbursed amounts of authorized venture capital direct investments were related to the following industry sectors.

Commitments, by industry sector	December 31, 2017	March 31, 2017
Electronics	3,684	3,884
Biotechnology and pharmacology	3,395	3,734
Information technology	2,962	1,702
Medical and health	2,890	2,433
Communication	1,230	-
Other	-	318
Total direct investments	14,161	12,071

Undisbursed amounts of authorized venture capital funds were \$270,715 as at December 31, 2017 (\$333,031 as at March 31, 2017).

Venture capital action plan

Undisbursed amounts of authorized venture capital action plan investments totalled \$27,913 as at December 31, 2017 (\$99,178 as at March 31, 2017).

Asset-backed securities

Undisbursed amounts of authorized asset-backed securities totalled \$378,000 as at December 31, 2017 (\$427,000 as at March 31, 2017).

Leases

BDC has future minimum lease commitments under operating leases related to the rental of premises.

15.

Related Party Transactions

As at December 31, 2017, BDC had \$20,170 million outstanding in short-term notes (excluding accrued interest) and no long-term notes with Her Majesty the Queen in Right of Canada acting through the Minister of Finance (\$18,805 million in short-term notes and \$5.6 million in long-term notes as at March 31, 2017).

Accrued interest on borrowings included \$7.8 million payable to the Minister of Finance as at December 31, 2017 (\$3.3 million as at March 31, 2017).

BDC recorded \$41.8 million in interest expense, related to the borrowings from the Minister of Finance, for the third quarter and \$96.0 million for the nine months ended December 31, 2017. Last year's comparative figures for the same periods were \$21.1 million and \$62.0 million, respectively.

In addition, no borrowings with the Minister of Finance were repurchased in the first nine months of fiscal 2018 and fiscal 2017.

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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