2018 Financial Report

Second Quarter

September 30, 2017

Executive Summary

The Canadian economy has gained momentum and is running at close to full capacity. The Bank of Canada raised the overnight interest rate twice by 25 basis points this quarter to 1.00% in September. The economy grew at an annualized rate of 4.5% in the second quarter of the year and has created 374,300 jobs over the last 12 months[(1)]. The unemployment rates in the three largest provinces are close to, or have reached, their historic low levels.

The Canadian economy continues to benefit from a solid American economy, as evidenced by Canadian exports, which grew at an annualized rate of 9.6% in the second quarter. The U.S. housing and industrial sectors were the driving force behind this growth. However, as the Canadian economy's growth rate has been stronger than that of the U.S., the Canadian dollar has appreciated recently to US$0.80, and this could eventually put some downward pressure on exports. Commodity prices remained stable. The price of oil is hovering around US$45 to US$50 per barrel. This pricing level and the recent announcements of pipeline projects are creating more economic activities and investment.

Business confidence continues to improve, supporting business investment, with increases in non-residential construction, machinery and equipment, and intellectual property products in the second quarter. Ontario, B.C. and Quebec investments should lead the country this year. Investment in residential construction declined in the second quarter, as housing starts decelerated in Toronto and Vancouver, two very strong markets over the last few years. High prices, as well as fiscal and regulatory measures implemented by governments to curb real estate speculation and counter the over-indebtedness of households, are having an impact.

The high consumer debt ratio remains a risk for the Canadian economy, especially in the context of rising interest rates. However, a strong job market mitigates this risk. The renegotiation of the North American Free Trade Aggreement also represents a risk to this positive outlook.

As a result of more favourable credit conditions in the market and BDC's complementary role, the volume of BDC's activity slowed slightly in the second quarter of fiscal 2018, compared to last year. Loans accepted by clients of Financing[(2)] reached $1.5 billion for the quarter and $3.7 billion during the six months ended September 30, 2017, compared to $1.8 billion and $3.5 billion, respectively, for the same periods last year. Financing's loans portfolio, before allowance for credit losses, stood at $23.4 billion as at September 30, 2017, a 4.2% increase since March 31, 2017.

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, as evidenced by a strong volume of online financing activity recorded during the first half of fiscal 2018.

(1) As of August 2017
(2) Unless otherwise indicated, Financing excludes Growth & Transition Capital.

Executive Summary

During the quarter ended September 30, 2017, clients of Growth & Transition Capital (G&TC) accepted $109.3 million in financing, for a total of $223.4 million for the six-month period. These were strong results compared to $73.3 million and $174.5 million, respectively, for the same periods last year.

Venture Capital authorized investments totalling $25.1 million in the second quarter of fiscal 2018, compared to $26.6 million for the same period last year, for a total of $80.2 million for the six months ended September 30, 2017 ($57.0 million for the same period last year).

BDC continued to manage the Venture Capital Action Plan (VCAP), a federal government initiative to invest $400 million to increase private sector venture capital financing for high-potential, innovative Canadian businesses. As at September 30, 2017, the total VCAP portfolio stood at $373.8 million, compared to $301.5 million as at March 31, 2017.

BDC Advisory Services supported entrepreneurs by initiating $5.2 million in mandates during the second quarter of fiscal 2018, for a total of $11.9 million for the six-month period. This compared to $5.0 million and $10.3 million for the same periods last year, respectively. The Growth Driver program was responsible for most of the increase in the total value of mandates.

In the second quarter of fiscal 2018, BDC posted consolidated net income of $291.4 million, for a total of $437.0 million for the first half of fiscal 2018. The comparative figures for the same periods in fiscal 2017 were $113.5 million and $205.9 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 and to Financing's portfolio growth.

The 2017 edition of BDC Small Business Week™ will run from October 15 to 21 under the theme "Future-proof your business: Adapting to technology and demographic trends." This year, BDC is inviting Canadian entrepreneurs to learn about key emerging business trends, particularly two forces that are reshaping Canada's businesses: the evolution of talent and the digitization of the economy.

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 risk management 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, 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 six-month periods ended September 30, 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 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 September 30		Six months ended September 30	
($ in millions)	**F2018**	F2017	**F2018**	F2017
Financing	**177.9**	119.2	**307.5**	236.7
Growth & Transition Capital	**36.2**	18.7	**48.6**	27.9
Venture Capital	**90.6**	(16.4)	**95.9**	(27.3)
Advisory Services	**(12.6)**	(11.7)	**(25.3)**	(22.3)
Venture Capital Action Plan	**(0.7)**	3.7	**10.3**	(9.1)
Net income	**291.4**	113.5	**437.0**	205.9
Net income attributable to:				
BDC's shareholder	**253.3**	113.1	**398.9**	207.1
Non-controlling interests	**38.1**	0.4	**38.1**	(1.2)
Net income	**291.4**	113.5	**437.0**	205.9

Three and six months ended September 30

For the quarter ended September 30, 2017, BDC recorded strong consolidated net income of $291.4 million, comprising $253.3 million attributable to BDC's shareholder and net income of $38.1 million attributable to non-controlling interests. This compared to $113.5 million in consolidated net income for the same period last year, of which net income of $0.4 million was attributable to non-controlling interests.

BDC's consolidated net income was $437.0 million for the six months ended September 30, 2017, higher than the $205.9 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 and Financing portfolio growth.

During the first half of fiscal 2018, one of BDC's investees accepted a significant offer, from which BDC received $40 million in proceeds from 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 Growth & Transition Capital and Venture Capital. In addition, the initial public offering of another of our investees positively affected Venture Capital.

Currently, BDC expects its consolidated net income for fiscal 2018 to exceed the Corporate Plan target of $486 million.

Consolidated comprehensive income

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2018**	F2017	**F2018**	F2017
Net income	**291.4**	113.5	**437.0**	205.9
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on available-for-sale assets	**(2.3)**	-	**(3.5)**	(1.0)
Net change in unrealized gains (losses) on cash flow hedges	**(0.1)**	(0.1)	**(0.3)**	(0.3)
Total items that may be reclassified subsequently to net income	**(2.4)**	(0.1)	**(3.8)**	(1.3)
Items that will not be reclassified to net income				
Remeasurements of net defined benefit asset or liability	**108.5**	(16.5)	**16.0**	(77.3)
Other comprehensive income (loss)	**106.1**	(16.6)	**12.2**	(78.6)
Total comprehensive income	**397.5**	96.9	**449.2**	127.3
Total comprehensive income attributable to:				
BDC's shareholder	**359.4**	96.5	**411.1**	128.5
Non-controlling interests	**38.1**	0.4	**38.1**	(1.2)
Total comprehensive income	**397.5**	96.9	**449.2**	127.3

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 the net defined benefit asset or liability, which are subject to strong volatility as a result of market fluctuations.

BDC recorded other comprehensive income of $106.1 million and $12.2 million, respectively, for the second quarter and the six-month period ended September 30, 2017, compared to losses of $16.6 million and $78.6 million for the same periods last year. The increase in OCI was attributable to the remeasurement gain on net defined benefit asset or liability of $108.5 million for the second quarter ended September 30, 2017. This gain was mainly due to higher discount rates used to value the net defined benefit liability, partially offset by lower returns on pension plan assets than forecasted.

Financing results

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2018**	F2017	**F2018**	F2017
Net interest and fee income	**290.0**	255.2	**559.1**	505.6
Provision for credit losses	**(15.6)**	(35.2)	**(59.5)**	(73.0)
Net gains (losses) on investments and other financial instruments	**0.5**	0.7	**0.9**	0.5
Income before operating and administrative expenses	**274.9**	220.7	**500.5**	433.1
Operating and administrative expenses	**97.0**	101.5	**193.0**	196.4
Net income from Financing	**177.9**	119.2	**307.5**	236.7

	Three months ended September 30		Six months ended September 30	
As % of average portfolio	**F2018**	F2017	**F2018**	F2017
Net interest and fee income	**4.8**	4.7	**4.7**	4.7
Provision for credit losses	**(0.3)**	(0.6)	**(0.5)**	(0.7)
Net gains (losses) on investments and other financial instruments	**-**	-	**-**	-
Income before operating and administrative expenses	**4.5**	4.1	**4.2**	4.0
Operating and administrative expenses	**1.6**	1.9	**1.6**	1.8
Net income from Financing	**2.9**	2.2	**2.6**	2.2

Three months and six months ended September 30

Financing's net income was $177.9 million for the second quarter of fiscal 2018 and $307.5 million for the six-month period ended September 30, 2017, compared to $119.2 million and $236.7 million for the same periods last year. The increase in profitability in the second quarter and first half of fiscal 2018 was mainly due to higher net interest and fee income, as a result of strong portfolio growth. As a percentage of average portfolio, net interest and fee income reached 4.8% in the second quarter of fiscal 2018, higher than the 4.7% recorded in the same period last year. Provision for credit losses was also lower than last year, due to the good performance of both the impaired and performing portfolios.

Operating and administrative expenses for the quarter and six months ended September 30, 2017, were lower than those in the corresponding periods last year, in dollars and as a percentage of the average portfolio. Lower shared costs as a result of the revised methodology to recharge shared corporate services to business lines explained the decrease in operating and administrative expenses. BDC continued to tightly manage its operating expenses to support portfolio growth.

Growth & Transition Capital results

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2018**	F2017	**F2018**	F2017
Net revenue on investments	**27.1**	31.0	**52.6**	49.3
Net change in unrealized appreciation (depreciation) of investments	**19.2**	(4.8)	**15.2**	(6.0)
Income before operating and administrative expenses	**46.3**	26.2	**67.8**	43.3
Operating and administrative expenses	**10.1**	7.5	**19.2**	15.4
Net income from Growth & Transition Capital	**36.2**	18.7	**48.6**	27.9
Net income attributable to:				
BDC's shareholder	**28.0**	18.4	**40.2**	27.6
Non-controlling interests	**8.2**	0.3	**8.4**	0.3
Net income from Growth & Transition Capital	**36.2**	18.7	**48.6**	27.9

	Three months ended September 30		Six months ended September 30	
As % of average portfolio	**F2018**	F2017	**F2018**	F2017
Net revenue on investments	**11.4**	15.2	**11.3**	12.5
Net change in unrealized appreciation (depreciation) of investments	**8.1**	(2.4)	**3.3**	(1.5)
Income before operating and administrative expenses	**19.5**	12.8	**14.6**	11.0
Operating and administrative expenses	**4.2**	3.7	**4.1**	3.9
Net income from Growth & Transition Capital	**15.3**	9.1	**10.5**	7.1
Net income attributable to:				
BDC's shareholder	**11.9**	9.0	**8.6**	7.0
Non-controlling interests	**3.4**	0.1	**1.8**	0.1
Net income from Growth & Transition Capital	**15.3**	9.1	**10.4**	7.1

Three and six months ended September 30

Net income reached $36.2 million for the second quarter of fiscal 2018, compared to $18.7 million for the same period last year. For the six months ended September 30, 2017, Growth & Transition Capital recorded solid net income of $48.6 million, compared to $27.9 million recorded for the same period of fiscal 2017. The increase was mainly due to fair value appreciation of investments.

Net revenue on investments, which comprised net interest income, net realized gains (losses) on investments, and fee and other income, amounted to $27.1 million for the second quarter of fiscal 2018 and $52.6 million for the first half of fiscal 2018, compared to $31.0 million and $49.3 million for the same periods last year. Net realized gains on investments and fee and other income for the second quarter of fiscal 2018 were slightly lower than those in the corresponding period last year, affecting net revenue on investments, despite strong portfolio growth. However, for the six months ending September 30, 2017, net interest income contributed to the increase in net revenue on investments compared to the same period of fiscal 2017.

Growth & Transition Capital reported a net change in unrealized appreciation of investments of $19.2 million in the second quarter and $15.2 million for the first half of fiscal 2018, compared to a net change in unrealized depreciation of $4.8 million and $6.0 million, respectively, during the same periods last year, as detailed below. During the second quarter of fiscal 2018, net fair value appreciation was favourably affected by the partial sale of one of BDC's holdings, a portion of which was attributable to non-controlling interests.

	Three months ended September 30		**Six months ended September 30**	
($ in millions)	**F2018**	F2017	**F2018**	F2017
Net fair value appreciation (depreciation)	**14.7**	1.4	**10.9**	(1.6)
Reversal of net fair value depreciation (appreciation) due to realized income and write-offs	**4.5**	(6.2)	**4.3**	(4.4)
Net change in unrealized appreciation (depreciation) of investments	**19.2**	(4.8)	**15.2**	(6.0)

Operating and administrative expenses amounted to $19.2 million for the six-month period ended September 30, 2017, higher than the $15.4 million recorded last year. The increase was mainly due to higher staff levels required to fully support growth and to a revised methodology to recharge shared corporate services to business lines.

Venture Capital results

($ in millions)	Three months ended September 30 F2018	Three months ended September 30 F2017	Six months ended September 30 F2018	Six months ended September 30 F2017
Net revenue (loss) on investments	**(15.4)**	3.3	**(31.8)**	2.2
Net change in unrealized appreciation (depreciation) of investments	**130.8**	(19.7)	**173.4**	(23.3)
Net unrealized foreign exchange gains (losses) on investments	**(19.6)**	5.9	**(34.5)**	4.8
Net gains (losses) on other financial instruments	**0.8**	-	**0.7**	(0.1)
Income before operating and administrative expenses	**96.6**	(10.5)	**107.8**	(16.4)
Operating and administrative expenses	**6.0**	5.9	**11.9**	10.9
Net income (loss) from Venture Capital	**90.6**	(16.4)	**95.9**	(27.3)
Net income attributable to:				
BDC's shareholder	**60.7**	(16.5)	**66.2**	(25.8)
Non-controlling interests	**29.9**	0.1	**29.7**	(1.5)
Net income (loss) from Venture Capital	**90.6**	(16.4)	**95.9**	(27.3)

Three and six months ended September 30

During the second quarter of fiscal 2018, Venture Capital recorded solid net income of $90.6 million, compared to a net loss of $16.4 million for the same period last year. For the six months ended September 30, 2017, net income was $95.9 million, compared to a net loss of $27.3 million recorded for the same period last year. Fiscal 2018 net income was driven by a significant net change in unrealized appreciation of investments.

Net loss on investments was $15.4 million for the second quarter and $31.8 million for the first half of fiscal 2018, compared to net revenue of $3.3 million and $2.2 million, respectively, for the same periods last year. Venture Capital recorded higher write-offs, partially offset by higher realized gains compared to the same periods of fiscal 2017. During the second quarter and first half of fiscal 2018, proceeds received from the divestiture of investments were $43.8 million and $61.7 million, respectively, compared to $11.2 million and $45.8 million received for the same periods of fiscal 2017.

Venture Capital recorded a net change in unrealized appreciation of investments of $130.8 million for the second quarter and $173.4 million for the first half of fiscal 2018. This compared to a net change in unrealized depreciation of $19.7 million and $23.3 million for the same periods last year, as detailed below. 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 addition, the initial public offering of one of our investees favourably affected the net change in unrealized appreciation of investments.

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2018**	F2017	**F2018**	F2017
Net fair value appreciation (depreciation)	**98.9**	(18.6)	**124.1**	(28.1)
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	**31.9**	(1.1)	**49.3**	4.8
Net change in unrealized appreciation (depreciation) of investments	**130.8**	(19.7)	**173.4**	(23.3)

Net unrealized foreign exchange losses on investments 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 $11.9 million, slightly higher than those recorded for the same period of fiscal 2017, mainly due to a revised methodology to recharge shared corporate services to business lines.

Advisory Services results

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2018**	F2017	**F2018**	F2017
Revenue	**4.8**	4.8	**9.3**	9.1
Delivery expenses[1]	**3.2**	2.8	**6.5**	5.4
Gross operating margin	**1.6**	2.0	**2.8**	3.7
Operating and administrative expenses	**14.2**	13.7	**28.1**	26.0
Net loss from Advisory Services	**(12.6)**	(11.7)	**(25.3)**	(22.3)

[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 $12.6 million was recorded for the second quarter of fiscal 2018, compared to a $11.7 million net loss recorded for the same quarter last year. Cumulative net loss for the six-month period ended September 30, 2017, was $25.3 million, compared to $22.3 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 increased its reach in the first half of fiscal 2018, which was reflected in higher revenue compared to last year. Revenue amounted to $9.3 million for the first half of fiscal 2018, higher than the $9.1 million recorded to last year. Gross operating margin, at $2.8 million for the six months ended September 30, 2017, was lower than the $3.7 million recorded for the same period last year. This is mainly due to delivery expenses related to the implementation of the new Growth Driver Program.

Operating and administrative expenses of $14.2 million and $28.1 million for the three-month and six-month periods ended September 30, 2017, were higher than those recorded in the same periods of fiscal 2017, mainly as a result of a revised methodology to recharge shared corporate services to business lines.

Venture Capital Action Plan results

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2018**	F2017	**F2018**	F2017
Net revenue (loss) on investments	**-**	-	**0.1**	0.1
Net change in unrealized appreciation (depreciation) of investments	**(0.3)**	3.8	**11.0**	(8.9)
Net unrealized foreign exchange gains (losses) on investments	**(0.1)**	-	**(0.3)**	-
Income (loss) before operating and administrative expenses	**(0.4)**	3.8	**10.8**	(8.8)
Operating and administrative expenses	**0.3**	0.1	**0.5**	0.3
Net income (loss) from Venture Capital Action Plan	**(0.7)**	3.7	**10.3**	(9.1)

Three and six months ended September 30

During the second quarter of fiscal 2018, Venture Capital Action Plan (VCAP) recorded a net loss of $0.7 million, compared to net income of $3.7 million for the same period last year. For the six-month period ended September 30, 2017, VCAP recorded net income of $10.3 million, compared to a net loss of $9.1 million for the same period last year.

Strong fiscal 2018 results are 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 $0.3 million and $0.5 million for the three-month and six-month periods ending September 30, 2017, respectively, 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 September 30, 2017, total BDC assets amounted to $26.6 billion, an increase of $1.3 billion from March 31, 2017, largely due to the $950.6 million increase in our loans portfolio, combined with a $126.0 million increase in the subordinate financing investment portfolio, and a $239.8 million increase in the venture capital and VCAP investment portfolios, partially offset by a $47.5 million decrease in asset-backed securities.

At $22.7 billion, the loans portfolio represented BDC's largest asset ($23.4 billion in gross portfolio less a $0.7 billion allowance for credit losses). The gross loans portfolio grew by 4.2% in the six 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 $2.5 billion, compared to $2.2 billion as at March 31, 2017. The asset-backed securities portfolio stood at $470.6 million, lower than in March 31, 2017, as a result of the repayment of one credit facility.

Derivative assets of $14.9 million and derivative liabilities of $4.2 million reflected the fair value of derivative financial instruments as at September 30, 2017. Net derivative fair value decreased by $8.9 million since March 31, 2017, explained by maturities and a decrease in fair value.

As at September 30, 2017, BDC recorded a net defined benefit asset of $134.8 million related to the registered pension plan and a net defined benefit liability of $228.4 million for the other plans, for a total net defined benefit liability of $93.6 million. This represented a decrease of $16.8 million compared to the total net defined benefit liability as at March 31, 2017, primarily as a result of remeasurement gains 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 $670.9 million as at September 30, 2017, compared to $649.2 million as at March 31, 2017. For the six-month period ended September 30, 2017, operating activities used $689.7 million, mainly to support the growth of the loans portfolio. Cash flows used by investing activities amounted to $196.7 million, reflecting net disbursements of subordinate financing, venture capital and VCAP investments. Financing activities provided $908.1 million in cash flow, mainly as a result of the issuance of short-term notes.

As at September 30, 2017, BDC funded its portfolios and liquidities with borrowings of $19.9 billion and total equity of $6.4 billion. Borrowings comprised $19.8 billion in short-term notes and $0.1 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 as at September 30, 2017 was 132%, compared to 130% as at March 31, 2017, well within the operating range but below the 134% target.

Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)

Management's Responsibility for Financial Information

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

Montreal, Canada
October 31, 2017

Consolidated Statement of Financial Position

(unaudited)

(in thousands of Canadian dollars)	Notes	**September 30, 2017**	March 31, 2017
ASSETS			
Cash and cash equivalents		**670,889**	649,168
Derivative assets		**14,884**	21,332
Loans and investments			
Asset-backed securities	6	**470,595**	518,088
Loans	7	**22,703,136**	21,752,511
Subordinate financing investments	8	**986,435**	860,448
Venture capital investments	9	**1,183,331**	1,015,713
Venture capital action plan investments	10	**373,761**	301,541
Total loans and investments		**25,717,258**	24,448,301
Property and equipment		**35,681**	29,103
Intangible assets		**35,464**	33,148
Net defined benefit asset		**134,812**	121,098
Other assets		**17,492**	14,615
Total assets		**26,626,480**	25,316,765
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities		**77,032**	119,035
Derivative liabilities		**4,218**	1,789
Borrowings			
Short-term notes		**19,758,389**	18,809,436
Long-term notes		**144,516**	167,391
Total borrowings		**19,902,905**	18,976,827
Net defined benefit liability		**228,383**	231,498
Other liabilities		**45,862**	48,321
Total liabilities		**20,258,400**	19,377,470
Equity			
Share capital	11	**2,413,400**	2,413,400
Contributed surplus		**27,778**	27,778
Retained earnings		**3,888,467**	3,473,612
Accumulated other comprehensive income		**(1,116)**	2,710
Equity attributable to BDC's shareholder		**6,328,529**	5,917,500
Non-controlling interests		**39,551**	21,795
Total equity		**6,368,080**	5,939,295
Total liabilities and equity		**26,626,480**	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 September 30 2017	Three months ended September 30 2016	Six months ended September 30 2017	Six months ended September 30 2016
Interest income	**337,363**	290,404	**643,802**	568,770
Interest expense	**31,904**	20,369	**52,710**	39,836
Net interest income	**305,459**	270,035	**591,092**	528,934
Net realized gains (losses) on investments	**(12,473)**	7,098	**(27,688)**	3,164
Revenue from Advisory Services	**4,719**	4,820	**9,197**	9,112
Fee and other income	**8,961**	12,491	**16,975**	25,244
Net realized gains (losses) on other financial instruments	**1,089**	26	**1,245**	2,063
Net revenue	**307,755**	294,470	**590,821**	568,517
Provision for credit losses	**(15,575)**	(35,219)	**(59,490)**	(73,033)
Net change in unrealized appreciation (depreciation) of investments	**150,029**	(20,747)	**199,665**	(38,292)
Net unrealized foreign exchange gains (losses) on investments	**(19,798)**	5,950	**(34,794)**	4,869
Net unrealized gains (losses) on other financial instruments	**(307)**	628	**56**	(1,708)
Income before operating and administrative expenses	**422,104**	245,082	**696,258**	460,353
Salaries and benefits	**95,071**	90,302	**186,896**	176,622
Premises and equipment	**10,188**	9,781	**20,363**	19,931
Other expenses	**25,514**	31,487	**52,034**	57,920
Operating and administrative expenses	**130,773**	131,570	**259,293**	254,473
Net income	**291,331**	113,512	**436,965**	205,880
Net income attributable to:				
BDC's shareholder	**253,206**	113,143	**398,845**	207,045
Non-controlling interests	**38,125**	369	**38,120**	(1,165)
Net income	**291,331**	113,512	**436,965**	205,880

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	
	2017	2016	**2017**	2016
Net income	**291,331**	113,512	**436,965**	205,880
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on available-for-sale assets	**(2,319)**	24	**(3,509)**	(1,022)
Net unrealized gains (losses) on cash flow hedges	**180**	(17)	**180**	(183)
Reclassification to net income of losses (gains) on cash flow hedges	**(248)**	(54)	**(497)**	(101)
Net change in unrealized gains (losses) on cash flow hedges	**(68)**	(71)	**(317)**	(284)
Total items that may be reclassified subsequently to net income	**(2,387)**	(47)	**(3,826)**	(1,306)
Items that will not be reclassified to net income				
Remeasurements of net defined benefit asset or liability	**108,540**	(16,549)	**16,010**	(77,315)
Other comprehensive income (loss)	**106,153**	(16,596)	**12,184**	(78,621)
Total comprehensive income	**397,484**	96,916	**449,149**	127,259
Total comprehensive income attributable to:				
BDC's shareholder	**359,359**	96,547	**411,029**	128,424
Non-controlling interests	**38,125**	369	**38,120**	(1,165)
Total comprehensive income	**397,484**	96,916	**449,149**	127,259

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

Consolidated Statement of Changes in Equity

For the three-month period ended September 30
(unaudited)

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) Available-for-sale assets	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
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 available-for-sale 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**
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**

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) Available-for-sale assets	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at June 30, 2016	2,288,400	27,778	2,967,970	(89)	2,642	2,553	5,286,701	24,092	5,310,793
Total comprehensive income									
Net income			113,143				113,143	369	113,512
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				24		24	24		24
Net change in unrealized gains (losses) on cash flow hedges					(71)	(71)	(71)		(71)
Remeasurements of net defined benefit asset or liability			(16,549)				(16,549)		(16,549)
Other comprehensive income (loss)	-	-	(16,549)	24	(71)	(47)	(16,596)	-	(16,596)
Total comprehensive income	-	-	96,594	24	(71)	(47)	96,547	369	96,916
Distributions to non-controlling interests								(1,324)	(1,324)
Capital injections from non-controlling interests								60	60
Transactions with owner, recorded directly in equity	-	-	-	-	-	-	-	(1,264)	(1,264)
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

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

Consolidated Statement of Changes in Equity

For the six-month period ended September 30
(unaudited)

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) Available-for-sale assets	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
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 available-for-sale 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**
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**

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) Available-for-sale assets	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
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			207,045				207,045	(1,165)	205,880
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				(1,022)		(1,022)	(1,022)		(1,022)
Net change in unrealized gains (losses) on cash flow hedges					(284)	(284)	(284)		(284)
Remeasurements of net defined benefit asset or liability			(77,315)				(77,315)		(77,315)
Other comprehensive income (loss)	-	-	(77,315)	(1,022)	(284)	(1,306)	(78,621)	-	(78,621)
Total comprehensive income	-	-	129,730	(1,022)	(284)	(1,306)	128,424	(1,165)	127,259
Dividends on common shares			(68,649)				(68,649)		(68,649)
Distributions to non-controlling interests								(2,264)	(2,264)
Capital injections from non-controlling interests								580	580
Transactions with owner, recorded directly in equity	-	-	(68,649)	-	-	-	(68,649)	(1,684)	(70,333)
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

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

Consolidated Statement of Cash Flows

(unaudited)

	Three months ended September 30		Six months ended September 30	
(in thousands of Canadian dollars)	**2017**	2016	**2017**	2016
Operating activities				
Net income	**291,331**	113,512	**436,965**	205,880
Adjustments to determine net cash flows				
Interest income	**(337,363)**	(290,404)	**(643,802)**	(568,770)
Interest expense	**31,904**	20,369	**52,710**	39,836
Net realized losses (gains) on investments	**12,473**	(7,098)	**27,688**	(3,164)
Provision for credit losses	**15,575**	35,219	**59,490**	73,033
Net change in unrealized depreciation (appreciation) on investments	**(150,029)**	20,747	**(199,665)**	38,292
Net unrealized foreign exchange losses (gains) on investments	**19,798**	(5,950)	**34,794**	(4,869)
Net unrealized losses (gains) on other financial instruments	**307**	(628)	**(56)**	1,708
Defined benefits funding below (in excess of) amounts expensed	**729**	9,723	**(819)**	5,130
Depreciation of property and equipment, and amortization of intangible assets	**3,797**	3,904	**7,694**	7,849
Other	**26,822**	(3,485)	**21,776**	(9,692)
Interest expense paid	**(29,982)**	(22,509)	**(48,886)**	(40,713)
Interest income received	**315,208**	282,961	**614,499**	555,378
Changes in operating assets and liabilities				
Net change in loans	**(390,687)**	(619,312)	**(1,004,751)**	(1,139,992)
Net change in accounts payable and accrued liabilities	**(49,972)**	(33,816)	**(42,003)**	(23,361)
Net change in other assets and other liabilities	**(221)**	13,043	**(5,336)**	10,494
Net cash flows provided (used) by operating activities	**(240,310)**	(483,724)	**(689,702)**	(852,961)
Investing activities				
Disbursements for asset-backed securities	**(114,348)**	(70,965)	**(155,416)**	(117,171)
Repayments and proceeds on sale of asset-backed securities	**147,317**	57,907	**199,351**	115,815
Disbursements for subordinate financing investments	**(96,937)**	(71,831)	**(203,001)**	(148,070)
Repayments of subordinate financing investments	**49,199**	47,640	**100,730**	74,792
Disbursements for venture capital investments	**(48,650)**	(37,171)	**(122,042)**	(82,895)
Proceeds on sale of venture capital investments	**43,775**	11,181	**61,730**	45,819
Disbursements for venture capital action plan investments	**(34,905)**	(45,834)	**(61,674)**	(114,289)
Proceeds on sale of venture capital action plan investments	**248**	23	**248**	77
Acquisition of property and equipment	**(7,373)**	(2,621)	**(9,749)**	(3,713)
Acquisition of intangible assets	**(3,305)**	(358)	**(6,840)**	(358)
Net cash flows provided (used) by investing activities	**(64,979)**	(112,029)	**(196,663)**	(229,993)
Financing activities				
Net change in short-term notes	**334,911**	665,137	**944,925**	1,299,206
Repayment of long-term notes	**(16,475)**	(30,300)	**(16,475)**	(140,849)
Distributions to non-controlling interests	**(18,403)**	(1,324)	**(21,156)**	(2,264)
Capital injections from non-controlling interests	**792**	60	**792**	580
Dividends paid on common shares	**-**	-	**-**	(68,649)
Net cash flows provided (used) by financing activities	**300,825**	633,573	**908,086**	1,088,024
Net increase (decrease) in cash and cash equivalents	**(4,464)**	37,820	**21,721**	5,070
Cash and cash equivalents at beginning of period	**675,353**	647,343	**649,168**	680,093
Cash and cash equivalents at end of period	**670,889**	685,163	**670,889**	685,163

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 October 31, 2017.

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 on 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.

(unaudited, in thousands of Canadian dollars)

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 September 30, 2017, and March 31, 2017.

								September 30, 2017
		Measured at fair value				Measured at amortized cost		
		FVTPL[1]						
	Note	Held-for-trading	Designated as at FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Financial liabilities	Total
Financial assets								
Cash and cash equivalents						670,889		670,889
Derivative assets		14,071			813			14,884
Asset-backed securities	6		6,715	463,880				470,595
Loans	7					22,703,136		22,703,136
Subordinate financing investments	8		986,435					986,435
Venture capital investments	9		1,183,331					1,183,331
Venture capital action plan investments	10		373,761					373,761
Other assets[2]						8,068		8,068
Total financial assets		14,071	2,550,242	463,880	813	23,382,093	-	26,411,099
Financial liabilities								
Accounts payable and accrued liabilities[2]							76,664	76,664
Derivative liabilities		3,408			810			4,218
Short-term notes							19,758,389	19,758,389
Long-term notes			144,516					144,516
Other liabilities[2]							33,264	33,264
Total financial liabilities		3,408	144,516	-	810	-	19,868,317	20,017,051

								March 31, 2017
		Measured at fair value				Measured at amortized cost		
		FVTPL[1]						
	Note	Held-for-trading	Designated as at FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Financial liabilities	Total
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.

(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.

				September 30, 2017
	Fair value measurements using			**Total**
	Level 1	**Level 2**	**Level 3**	**fair value**
Assets				
Derivative assets		**14,884**		**14,884**
Asset-backed securities		**470,595**		**470,595**
Subordinate financing investments			**986,435**	**986,435**
Venture capital investments	**132,831**		**1,050,500**	**1,183,331**
Venture capital action plan investments			**373,761**	**373,761**
	132,831	**485,479**	**2,410,696**	**3,029,006**
Liabilities				
Derivative liabilities		**4,218**		**4,218**
Long-term notes designated as at FVTPL[1]		**144,516**		**144,516**
	-	**148,734**	**-**	**148,734**

				March 31, 2017
	Fair value measurements using			Total
	Level 1	Level 2	Level 3	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.

(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.

September 30, 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	**3,437**	**(31,975)**	**-**	**(28,538)**
Net change in unrealized appreciation (depreciation) of investments	**16,022**	**160,692**	**11,040**	**187,754**
Net unrealized foreign exchange gains (losses) on investments	**-**	**(32,370)**	**(246)**	**(32,616)**
Disbursements for investments	**203,001**	**108,322**	**61,674**	**372,997**
Repayments of investments and other	**(95,068)**	**(61,285)**	**(248)**	**(156,601)**
Transfers from level 3 to level 1	**-**	**(95,122)**	**-**	**(95,122)**
Fair value as at September 30, 2017	**986,435**	**1,050,500**	**373,761**	**2,410,696**

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

(unaudited, in thousands of Canadian dollars)

6.
Asset-Backed Securities

	September 30, 2017	March 31, 2017
Available-for-sale		
Principal amount	**468,100**	508,751
Cumulative fair value appreciation (depreciation)	**(4,220)**	(711)
Carrying value	**463,880**	508,040
Yield	**2.05%**	1.86%
Fair value through profit or loss		
Principal amount	**6,737**	10,010
Cumulative fair value appreciation (depreciation)	**(22)**	38
Carrying value	**6,715**	10,048
Yield	**8.08%**	6.94%
Asset-backed securities	**470,595**	518,088

No asset-backed securities were impaired as at September 30 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	**238,858**	**2,823,072**	**19,622,015**	**22,683,945**	**(401,000)**		**(401,000)**	**22,282,945**
Impaired	**30,784**	**119,185**	**565,210**	**715,179**		**(294,988)**	**(294,988)**	**420,191**
Loans as at September 30, 2017	**269,642**	**2,942,257**	**20,187,225**	**23,399,124**	**(401,000)**	**(294,988)**	**(695,988)**	**22,703,136**

	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

	September 30, 2017	March 31, 2017
Balance at beginning of period	**696,882**	605,724
Write-offs	**(53,961)**	(85,655)
Effect of discounting	**(7,925)**	(14,948)
Recoveries and other	**1,502**	12,216
	636,498	517,337
Provision for credit losses	**59,490**	179,545
Balance at end of period	**695,988**	696,882

(unaudited, in thousands of Canadian dollars)

Concentrations of total loans outstanding

Geographic distribution	September 30, 2017	March 31, 2017
Newfoundland and Labrador	**879,909**	889,754
Prince Edward Island	**59,838**	60,087
Nova Scotia	**557,692**	547,775
New Brunswick	**464,428**	446,742
Quebec	**7,293,529**	7,040,483
Ontario	**6,312,568**	5,979,102
Manitoba	**698,868**	689,135
Saskatchewan	**781,105**	767,651
Alberta	**3,518,485**	3,381,974
British Columbia	**2,691,799**	2,515,417
Yukon	**106,537**	100,326
Northwest Territories and Nunavut	**34,366**	30,947
Total loans outstanding	**23,399,124**	22,449,393

Industry sector	September 30, 2017	March 31, 2017
Manufacturing	**5,421,252**	5,178,805
Wholesale and retail trade	**4,466,196**	4,314,423
Service industries	**3,265,703**	3,073,195
Tourism	**2,848,545**	2,772,742
Commercial properties	**2,424,924**	2,345,410
Construction	**1,881,274**	1,888,205
Transportation and storage	**1,339,132**	1,257,632
Resources	**1,024,206**	918,982
Other	**727,892**	699,999
Total loans outstanding	**23,399,124**	22,449,393

(unaudited, in thousands of Canadian dollars)

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 September 30, 2017	**95,636**	**688,803**	**223,195**	**1,007,634**	**986,435**
As at March 31, 2017	83,498	664,213	145,202	892,913	860,448

Concentrations of total subordinate financing investments

		September 30, 2017		March 31, 2017
Geographic distribution	**Fair value**	**Cost**	Fair value	Cost
Newfoundland and Labrador	**5,831**	**6,687**	5,710	6,730
Nova Scotia	**17,616**	**19,527**	18,154	19,695
New Brunswick	**32,346**	**28,727**	30,421	27,630
Quebec	**388,053**	**396,575**	323,096	341,323
Ontario	**339,867**	**337,623**	310,532	310,909
Manitoba	**6,214**	**5,612**	7,195	5,856
Saskatchewan	**18,975**	**21,026**	18,091	18,181
Alberta	**104,362**	**118,620**	96,892	112,265
British Columbia	**66,974**	**66,953**	46,089	46,009
Yukon	**3,120**	**3,179**	3,264	3,210
Northwest Territories and Nunavut	**3,077**	**3,105**	1,004	1,105
Subordinate financing investments	**986,435**	**1,007,634**	860,448	892,913

		September 30, 2017		March 31, 2017
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Manufacturing	**308,530**	**311,600**	267,839	280,376
Service industries	**245,524**	**253,708**	218,745	228,135
Wholesale and retail trade	**180,209**	**183,253**	156,008	158,579
Construction	**63,763**	**63,347**	63,388	60,859
Resources	**59,078**	**73,677**	62,298	75,313
Information industries	**56,546**	**56,975**	34,749	35,060
Transportation and storage	**25,515**	**29,302**	14,076	14,404
Educational services	**9,801**	**9,711**	10,133	10,076
Tourism	**8,163**	**8,381**	9,589	9,981
Commercial properties	**1,032**	**1,006**	-	-
Other	**28,274**	**16,674**	23,623	20,130
Subordinate financing investments	**986,435**	**1,007,634**	860,448	892,913

(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.

		September 30, 2017		March 31, 2017
Investment type	**Fair value**	**Cost**	Fair value	Cost
Common shares	**176,574**	**129,592**	53,814	84,690
Preferred shares	**514,955**	**398,234**	523,231	452,858
Debentures	**26,385**	**29,392**	27,028	34,905
Total direct investments	**717,914**	**557,218**	604,073	572,453
Funds	**465,417**	**356,467**	411,640	312,450
Venture capital investments	**1,183,331**	**913,685**	1,015,713	884,903

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

		September 30, 2017		March 31, 2017
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Information technology	**292,480**	**239,062**	253,274	218,443
Biotechnology and pharmacology	**174,975**	**106,201**	159,309	129,523
Communications	**62,661**	**58,280**	53,710	51,891
Electronics	**62,058**	**58,096**	63,289	79,060
Industrial	**56,373**	**14,697**	15,755	16,783
Medical and health	**30,200**	**53,084**	25,001	51,407
Energy	**18,373**	**11,590**	11,668	9,762
Other	**20,794**	**16,208**	22,067	15,584
Total direct investments	**717,914**	**557,218**	604,073	572,453

10.
Venture Capital Action Plan Investments

Venture Capital Action Plan is a federal government initiative to invest $400 million to increase private sector venture capital financing for high-potential, innovative Canadian businesses.

Venture Capital Action Plan invests primarily in early-stage and mid-stage venture capital funds, and directly in companies across Canada. 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.

As at September 30, 2017, the fair value of venture capital action plan investments stood at $373,761 ($301,541 as at March 31, 2017), and their cost was $352,606 ($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 September 30, 2017, there were 24,134,000 common shares outstanding (24,134,000 as at March 31, 2017).

On September 30, 2017, a common shares subscription agreement was signed with BDC's shareholder. This transaction of 645,000 shares worth $64.5 million related to VCAP. BDC will record it once the shares are paid and issued.

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 September 30 and March 31, 2017, BDC met both of these statutory limitation requirements.

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 September 30, 2017, was 132%, compared to 130% as at March 31, 2017, well within the operating range but below the 134% target.

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 to 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.

(unaudited, in thousands of Canadian dollars)

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

Three months ended September 30, 2017

	BDC	Financing	Growth & Transition Capital	Venture Capital	Advisory Services	Venture Capital Action Plan
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	**8,961**	4,208	4,628	88	43	(6)
Net realized gains (losses) on other financial instruments	**1,089**	249	-	840	-	-
Net revenue (loss)	**307,755**	**290,491**	**27,068**	**(14,560)**	**4,762**	**(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 unrealized foreign exchange gains (losses) on investments	**(19,798)**	-	-	(19,666)	-	(132)
Net unrealized gains (losses) on other financial instruments	**(307)**	(307)	-	-	-	-
Income (loss) before operating and administrative expenses	**422,104**	**274,853**	**46,324**	**96,512**	**4,762**	**(347)**
Salaries and benefits	**95,071**	69,835	8,561	4,390	11,978	307
Premises and equipment	**10,188**	8,080	513	499	1,082	14
Other expenses	**25,514**	19,080	1,036	1,068	4,303	27
Operating and administrative expenses	**130,773**	**96,995**	**10,110**	**5,957**	**17,363**	**348**
Net income (loss)	**291,331**	**177,858**	**36,214**	**90,555**	**(12,601)**	**(695)**
Net income (loss) attributable to:						
BDC's shareholder	**253,206**	177,858	27,981	60,663	(12,601)	(695)
Non-controlling interests	**38,125**	-	8,233	29,892	-	-
Net income (loss)	**291,331**	**177,858**	**36,214**	**90,555**	**(12,601)**	**(695)**
Business segment portfolio at end of period	**25,717,258**	**23,181,880**[(1)]	**978,286**	**1,183,331**	**-**	**373,761**

(1) Financing's portfolio at the end of the period included $22,703,136 in loans, $470,595 in asset-backed securities and $8,149 in subordinate financing investments.

Three months ended September 30, 2016

	BDC	Financing	Growth & Transition Capital	Venture Capital	Advisory Services	Venture Capital Action Plan
Interest income	**290,404**	270,461	19,943	-	-	-
Interest expense	**20,369**	19,332	1,037	-	-	-
Net interest income	**270,035**	**251,129**	**18,906**	**-**	**-**	**-**
Net realized gains (losses) on investments	**7,098**	-	6,032	1,066	-	-
Revenue from Advisory Services	**4,820**	-	-	-	4,820	-
Fee and other income	**12,491**	4,126	6,062	2,308	16	(21)
Net realized gains (losses) on other financial instruments	**26**	54	-	(28)	-	-
Net revenue (loss)	**294,470**	**255,309**	**31,000**	**3,346**	**4,836**	**(21)**
Provision for credit losses	**(35,219)**	(35,219)	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	**(20,747)**	(8)	(4,764)	(19,730)	-	3,755
Net unrealized foreign exchange gains (losses) on investments	**5,950**	-	-	5,900	-	50
Net unrealized gains (losses) on other financial instruments	**628**	641	-	(13)	-	-
Income (loss) before operating and administrative expenses	**245,082**	**220,723**	**26,236**	**(10,497)**	**4,836**	**3,784**
Salaries and benefits	**90,302**	68,425	6,453	4,543	10,769	112
Premises and equipment	**9,781**	7,986	402	446	934	13
Other expenses	**31,487**	25,126	626	929	4,794	12
Operating and administrative expenses	**131,570**	**101,537**	**7,481**	**5,918**	**16,497**	**137**
Net income (loss)	**113,512**	**119,186**	**18,755**	**(16,415)**	**(11,661)**	**3,647**
Net income (loss) attributable to:						
BDC's shareholder	**113,143**	119,186	18,471	(16,500)	(11,661)	3,647
Non-controlling interests	**369**	-	284	85	-	-
Net income (loss)	**113,512**	**119,186**	**18,755**	**(16,415)**	**(11,661)**	**3,647**
Business segment portfolio at end of period	**23,335,867**	**21,320,958**[(1)]	**822,988**	**948,956**	**-**	**242,965**

(1) Financing's portfolio at the end of the period included $20,810,883 in loans and $510,075 in asset-backed securities.

(unaudited, in thousands of Canadian dollars)

Six months ended September 30, 2017

	BDC	Financing	Growth & Transition Capital	Venture Capital	Advisory Services	Venture Capital Action Plan
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	**16,975**	6,642	9,937	243	103	50
Net realized gains (losses) on other financial instruments	**1,245**	498	-	747	-	-
Net revenue (loss)	**590,821**	**559,851**	**52,605**	**(30,985)**	**9,300**	**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 unrealized foreign exchange gains (losses) on investments	**(34,794)**	-	-	(34,548)	-	(246)
Net unrealized gains (losses) on other financial instruments	**56**	104	-	(48)	-	-
Income (loss) before operating and administrative expenses	**696,258**	**500,490**	**67,820**	**107,804**	**9,300**	**10,844**
Salaries and benefits	**186,896**	138,094	16,086	8,546	23,711	459
Premises and equipment	**20,363**	16,202	1,020	972	2,137	32
Other expenses	**52,034**	38,686	2,154	2,385	8,759	50
Operating and administrative expenses	**259,293**	**192,982**	**19,260**	**11,903**	**34,607**	**541**
Net income (loss)	**436,965**	**307,508**	**48,560**	**95,901**	**(25,307)**	**10,303**
Net income (loss) attributable to:						
BDC's shareholder	**398,845**	307,508	40,179	66,162	(25,307)	10,303
Non-controlling interests	**38,120**	-	8,381	29,739	-	-
Net income (loss)	**436,965**	**307,508**	**48,560**	**95,901**	**(25,307)**	**10,303**
Business segment portfolio at end of period	**25,717,258**	**23,181,880**[1]	**978,286**	**1,183,331**	**-**	**373,761**

[1] Financing's portfolio at the end of the period included $22,703,136 in loans, $470,595 in asset-backed securities and $8,149 in subordinate financing investments.

Six months ended September 30, 2016

	BDC	Financing	Growth & Transition Capital	Venture Capital	Advisory Services	Venture Capital Action Plan
Interest income	**568,770**	531,768	37,002	-	-	-
Interest expense	**39,836**	37,760	2,076	-	-	-
Net interest income	**528,934**	**494,008**	**34,926**	**-**	**-**	**-**
Net realized gains (losses) on investments	**3,164**	-	3,831	(667)	-	-
Revenue from Advisory Services	**9,112**	-	-	-	9,112	-
Fee and other income	**25,244**	11,686	10,570	2,881	52	55
Net realized gains (losses) on other financial instruments	**2,063**	1,988	-	75	-	-
Net revenue (loss)	**568,517**	**507,682**	**49,327**	**2,289**	**9,164**	**55**
Provision for credit losses	**(73,033)**	(73,033)	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	**(38,292)**	(12)	(6,018)	(23,320)	-	(8,942)
Net unrealized foreign exchange gains (losses) on investments	**4,869**	-	-	4,842	-	27
Net unrealized gains (losses) on other financial instruments	**(1,708)**	(1,504)	-	(204)	-	-
Income (loss) before operating and administrative expenses	**460,353**	**433,133**	**43,309**	**(16,393)**	**9,164**	**(8,860)**
Salaries and benefits	**176,622**	133,976	13,314	8,232	20,883	217
Premises and equipment	**19,931**	16,314	810	901	1,880	26
Other expenses	**57,920**	46,125	1,329	1,809	8,633	24
Operating and administrative expenses	**254,473**	**196,415**	**15,453**	**10,942**	**31,396**	**267**
Net income (loss)	**205,880**	**236,718**	**27,856**	**(27,335)**	**(22,232)**	**(9,127)**
Net income (loss) attributable to:						
BDC's shareholder	**207,045**	236,718	27,553	(25,867)	(22,232)	(9,127)
Non-controlling interests	**(1,165)**	-	303	(1,468)	-	-
Net income (loss)	**205,880**	**236,718**	**27,856**	**(27,335)**	**(22,232)**	**(9,127)**
Business segment portfolio at end of period	**23,335,867**	**21,320,958**[1]	**822,988**	**948,956**	**-**	**242,965**

[1] Financing's portfolio at the end of the period included $20,810,883 in loans and $510,075 in asset-backed securities.

(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 $321 million as at September 30, 2017 ($341.8 million as at March 31, 2017) and the existing terms expire within 145 months (within 151 months as at March 31, 2017). However, the actual exposure as at September 30, 2017, was $57.0 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 September 30, 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 $3,097,294 as at September 30, 2017 ($522,236 fixed rate; $2,575,058 floating rate) and are expected to be disbursed within the next 12 months. The weighted average effective interest rate was 4.8% 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	**September 30, 2017**	March 31, 2017
Newfoundland and Labrador	**61,096**	69,330
Prince Edward Island	**14,080**	447
Nova Scotia	**60,951**	36,820
New Brunswick	**37,525**	38,899
Quebec	**910,837**	830,057
Ontario	**771,785**	730,349
Manitoba	**139,615**	128,287
Saskatchewan	**48,890**	47,707
Alberta	**599,137**	650,029
British Columbia	**447,576**	320,360
Yukon	**3,641**	6,003
Northwest Territories and Nunavut	**2,161**	2,740
Total	**3,097,294**	2,861,028

(unaudited, in thousands of Canadian dollars)

Commitments, by industry sector	September 30, 2017	March 31, 2017
Manufacturing	**924,034**	811,767
Wholesale and retail trade	**420,149**	343,864
Service industries	**404,816**	343,336
Tourism	**327,982**	297,127
Resources	**278,516**	352,548
Construction	**234,637**	267,307
Transportation and storage	**160,681**	152,138
Commercial properties	**152,698**	144,257
Other	**193,781**	148,684
Total	**3,097,294**	2,861,028

Subordinate financing

Undisbursed amounts of authorized investments totalled $91,542 as at September 30, 2017 ($24,200 fixed rate; $67,342 floating rate) and are expected to be disbursed within the next 12 months. The weighted average effective interest rate (excluding non-interest returns) was 9.6% 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	September 30, 2017	March 31, 2017
Newfoundland and Labrador	**2,824**	209
Nova Scotia	**2,000**	2,000
New Brunswick	**200**	1,500
Quebec	**32,719**	15,471
Ontario	**39,159**	43,422
Manitoba	**1,000**	2,000
Saskatchewan	**1,540**	3,890
Alberta	**5,400**	2,950
British Columbia	**6,700**	8,161
Total	**91,542**	79,603

Commitments, by industry sector	September 30, 2017	March 31, 2017
Service industries	**30,017**	25,856
Manufacturing	**29,877**	25,748
Wholesale and retail trade	**16,440**	12,090
Construction	**6,350**	4,900
Information industries	**3,010**	6,059
Transportation and storage	**2,800**	2,100
Tourism	**1,450**	750
Resources	**850**	2,100
Other	**748**	-
Total	**91,542**	79,603

(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	September 30, 2017	March 31, 2017
Electronics	**3,884**	3,884
Biotechnology and pharmacology	**3,395**	3,734
Medical and health	**2,890**	2,433
Communication	**1,230**	-
Information technology	**962**	1,702
Other	**-**	318
Total direct investments	**12,361**	12,071

Undisbursed amounts of authorized venture capital funds were $293,337 as at September 30, 2017 ($333,031 as at March 31, 2017).

Venture capital action plan

Undisbursed amounts of authorized venture capital action plan investments totalled $37,752 as at September 30, 2017 ($99,178 as at March 31, 2017).

Asset-backed securities

Undisbursed amounts of authorized asset-backed securities totalled $406,000 as at September 30, 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 September 30, 2017, BDC had $19,750 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 $7.0 million payable to the Minister of Finance as at September 30, 2017 ($3.3 million as at March 31, 2017).

BDC recorded $32.8 million in interest expense, related to the borrowings from the Minister of Finance, for the second quarter and $54.2 million for the six-months ended September 30, 2017. Last year's comparative figures for the same periods were $20.9 million and $40.9 million, respectively.

In addition, no borrowings with the Minister of Finance were repurchased in the first six-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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