2020
Financial Report

Second Quarter

September 30, 2019

Executive Summary

Canadian economic outlook

After improving in the last quarter, Canada's economy is moderating to a pace of growth below 2%. Like most countries around the world, the ongoing trade and geopolitical tensions between the world's two largest economies is creating uncertainty, lowering confidence and weighing on business investment and consumer spending.

Despite the global uncertainty, the labour market has performed well, creating over 110,000 new jobs in the quarter. The national unemployment rate ended the quarter at 5.5%, the same as last quarter. Average wages are also increasing, supporting stronger household income.

Stronger income growth as well as lower mortgage rates and a less restrictive mortgage stress test rate have all helped the housing market stabilize in recent months. Resale activity and average prices rose in the past quarter after many months of adjustment to previous interest rate increases and mortgage rule changes.

The strong job market and the stabilizing housing market should help consumer confidence. Eventually, this should translate into higher spending, but for the moment, households' disposable income is going to debt service—currently at a historical high.

Businesses have also been cautious about their investment decisions. While non-resource sector investments marginally improved, the weakest performance remains in the oil and gas sector. Lower prices—a result of excess supply and transportation capacity issues—continue to be a disincentive for further investment. This is having knock-on effects across all sectors.

After declining in prior quarters, the effective interest rate for business was stable at just under 3.5% over the quarter. Liquidity remains abundant with chartered banks increasing credit to businesses at an annualized pace of just under 12% during the quarter.

The lower loonie, which depreciated 1.2% over the quarter, should be positive for exports. The depreciation occurred despite a narrowing in the policy interest rate differential between Canada and the U.S. as the U.S. Federal Reserve lowered its policy rate twice over the quarter.[(1)] The Bank of Canada's position remains accommodative as it balances the risk of global uncertainty with high household indebtedness.

Financial highlights

The economic conditions contributed to strong growth in the volume of activity across our business lines in the second quarter and the six-month period ended on September 30, 2019.

Financing acceptances grew by 26% for the second quarter and by 13% for the first half of fiscal 2020 compared to the corresponding periods of fiscal 2019. Clients accepted a total of $2.1 billion in loans for the second quarter and $4.3 billion for the six-month period, compared to $1.6 billion and $3.8 billion, respectively, for the same periods last year. Financing's loans portfolio[(2)] stood at $27.0 billion as at September 30, 2019, a 4.0% increase since March 31, 2019.

Net contracts signed for Advisory Services increased in the second quarter to $7.9 million and $15.7 for the six-month period, compared to $6.7 million and $14.3 million, respectively, for the same periods last year. Moreover, revenues also increased, totalling $6.6 million in the second quarter and $13.9 million for the six-month period,

(1) With the U.S. lowering its rate, theoretically, the U.S. dollar should have depreciated relative to the Canadian dollar; however, the strong demand for U.S. dollars likely outweighed the effect of the narrowing in the interest rate differential.

(2) Net of allowance for expected credit losses.

14.6% and 15.4%, respectively, higher compared to the same periods last fiscal.

Growth & Transition Capital exhibited strong growth in the first half of fiscal 2020 with an increase of 85% in the volume of acceptances compared to the same period last year. This is explained by an increase in larger deals and new initiatives to support entrepreneurs. Clients accepted $217.1 million in financing during the second quarter and $319.4 million for the six-month period of fiscal 2020, compared to $86.1 million and $172.7 million, respectively, for the same periods last year.

Venture Capital (VC) authorized investments totalling $114.2 million in the second quarter and $142.8 million for the six-month period of fiscal 2020, compared to $40.5 million and $79.9 million, respectively, for the same periods last year. The increase in authorizations is driven by larger size deals on the direct investments side, and a higher level of activity in the funds.

Venture Capital Incentive Programs authorized investments totalling $25.0 million in the second quarter and $116.1 million in the six-month period for the Venture Capital Catalyst Initiative.

Clients of the Cleantech Practice accepted a total of $22.7 million in subordinate financing investments during the six-month period of fiscal 2020 compared to $6.0 million for the same period last year. The Cleantech Practice portfolio as at September 30, 2019 stood at $92.0 million, an increase of $34.2 million from March 31, 2019.

Consolidated net income for the second quarter and six-month period reached $294.8 million and $517.7 million, respectively, compared to $213.6 million and $434.6 million for the same periods last year. The strong second quarter results are mainly attributable to higher net revenue on investments and higher net change in unrealized appreciation of investments in VC.

BDC quarterly achievements

- Additional $300 million in commercial loans announced to support business growth in the Atlantic provinces, in an effort to help sustain the region's continued economic development. Since the launch of the initial $280-million package in 2017, BDC's Atlantic Growth Envelope has supported about 800 companies.
- New e-commerce study launched in July which found that growing a business online equates to higher revenues, direct communication with customers and easier access to global markets. It also indicated that, although being online fuels growth, only 4 out of 10 Canadian SMEs with an online presence sell, receive and take orders online.
- "Best For The World 2019" honouree received for our achievements as one of the world's top-performing B Corporations. BDC is in the top 10% of all certified B Corp companies worldwide, in two areas of impact: Governance and Workers.

BDC's 75th anniversary celebrations kicked off on September 30th and will continue to be rolled out during Small Business Week™ to showcase the people behind the success of Canadian small- and medium-sized businesses (SMEs).

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

For 75 years and counting, BDC's purpose has been to support entrepreneurs in all industries and all stages of growth. BDC provides access to financing, both online and in-person, as well as advisory services to help Canadian businesses grow and succeed. Its investment arm, BDC Capital, offers a wide range of capital solutions.

Table of Contents

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.

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, 2019, compared to the corresponding periods of the prior fiscal year.

BDC currently reports on six business segments: Financing, Advisory Services, Growth & Transition Capital, Venture Capital, Venture Capital Incentive Programs (VCIP) and Cleantech Practice.

All amounts are in Canadian dollars, unless otherwise specified, and are based on unaudited condensed quarterly Consolidated Financial Statements prepared 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.

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)	**F2020**	F2019	**F2020**	F2019
Financing	**153.9**	178.1	**283.3**	341.9
Advisory Services	**(11.7)**	(12.4)	**(22.6)**	(24.1)
Growth & Transition Capital	**24.5**	29.5	**34.6**	42.7
Venture Capital	**115.1**	2.3	**195.7**	38.6
Venture Capital Incentive Programs	**8.7**	16.6	**20.0**	36.6
Cleantech Practice	**4.3**	(0.5)	**6.7**	(1.1)
Net income	**294.8**	213.6	**517.7**	434.6
Net income (loss) attributable to:				
BDC's shareholder	**302.6**	214.6	**511.4**	433.6
Non-controlling interests	**(7.8)**	(1.0)	**6.3**	1.0
Net income	**294.8**	213.6	**517.7**	434.6

Three and six months ended September 30

For the quarter ended September 30, 2019, BDC's consolidated net income was $294.8 million, comprising $302.6 million attributable to BDC's shareholder and a net loss of $7.8 million attributable to non-controlling interests. In comparison, BDC reported $213.6 million in consolidated net income for the same period last year, comprising $214.6 million attributable to BDC's shareholder and a net loss of $1.0 million attributable to non-controlling interests.

BDC recorded strong consolidated net income of $517.7 million for the six months ended September 30, 2019, $83.1 million higher than the $434.6 million recorded for the same period last year.

The increase in the second quarter compared to last year was mostly attributable to higher net revenue on investments and higher net change in unrealized appreciation of investments in Venture Capital. This was offset by higher operating and administrative expenses in Financing. The increase in the six-month period compared to last year was also attributable to higher net revenue on investments in Venture Capital offset by the higher provision for expected credit losses in Financing.

Consolidated comprehensive income

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2020**	F2019	**F2020**	F2019
Net income	**294.8**	213.6	**517.7**	434.6
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on FVOCI assets	**(1.5)**	(0.6)	**0.1**	(0.3)
Net change in unrealized gains (losses) on cash flow hedges	**(0.3)**	(0.3)	**(0.6)**	1.9
Total items that may be reclassified subsequently to net income	**(1.8)**	(0.9)	**(0.5)**	1.6
Items that will not be reclassified to net income				
Remeasurements of net defined benefit asset or liability	**(9.8)**	44.9	**(102.5)**	109.7
Other comprehensive income (loss)	**(11.6)**	44.0	**(103.0)**	111.3
Total comprehensive income	**283.2**	257.6	**414.7**	545.9
Total comprehensive income attributable to:				
BDC's shareholder	**291.0**	258.6	**408.4**	544.9
Non-controlling interests	**(7.8)**	(1.0)	**6.3**	1.0
Total comprehensive income	**283.2**	257.6	**414.7**	545.9

Three and six months ended September 30

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

BDC recorded other comprehensive losses of $11.6 million and $103.0 million, respectively, for the second quarter and the six-month period ended September 30, 2019, compared to other comprehensive income of $44.0 million and $111.3 million for the same periods last year. The decrease in OCI for the six-month period of fiscal 2020 was mainly attributable to a remeasurement loss of $102.5 million on the net defined benefit asset or liability. This loss was due to lower discount rates used to value the net defined benefit liability, partially offset by higher returns on pension plan assets than forecasted.

Financing results

($ in millions)	Three months ended September 30 F2020	Three months ended September 30 F2019	Six months ended September 30 F2020	Six months ended September 30 F2019
Net interest income	**327.6**	312.3	**643.6**	608.8
Fee and other income	**5.9**	5.0	**11.4**	10.4
Provision for expected credit losses	**(52.7)**	(34.6)	**(129.2)**	(71.3)
Net change in unrealized appreciation (depreciation) of investments	**2.1**	-	**0.7**	-
Net foreign exchange gains (losses)	**(0.8)**	(2.0)	**(2.4)**	(4.8)
Net gains (losses) on other financial instruments	**0.3**	0.1	**0.1**	0.5
Income before operating and administrative expenses	**282.4**	280.8	**524.2**	543.6
Operating and administrative expenses	**128.5**	102.7	**240.9**	201.7
Net income from Financing	**153.9**	178.1	**283.3**	341.9

As % of average portfolio	Three months ended September 30 F2020	Three months ended September 30 F2019	Six months ended September 30 F2020	Six months ended September 30 F2019
Net interest income	**4.6**	4.8	**4.6**	4.7
Fee and other income	**0.1**	0.1	**0.1**	0.1
Provision for expected credit losses	**(0.7)**	(0.5)	**(0.9)**	(0.6)
Net change in unrealized appreciation (depreciation) of investments	**-**	-	**-**	-
Net foreign exchange gains (losses)	**-**	-	**-**	-
Net gains (losses) on other financial instruments	**-**	-	**-**	-
Income before operating and administrative expenses	**4.0**	4.4	**3.8**	4.2
Operating and administrative expenses	**1.8**	1.6	**1.7**	1.6
Net income from Financing	**2.2**	2.8	**2.1**	2.6

Three and six months ended September 30

Net income from Financing was $153.9 million for the second quarter of fiscal 2020 and $283.3 million for the six-month period ended September 30, 2019, compared to $178.1 million and $341.9 million, respectively, for the same periods last year. The decrease in profitability in the second quarter and first half of fiscal 2020 was mainly due to the higher provision for expected credit losses. This was partially offset by higher net interest income from portfolio growth. As a percentage of average portfolio, net income amounted to 2.1% for the first half of fiscal 2020, lower than for the same period last year.

Operating and administrative expenses for the quarter and six months ended September 30, 2019 were higher than those in the corresponding periods last year. However, operating and administrative expenses as a percentage of average portfolio remained similar to last year at 1.8% and 1.7%, respectively, for the quarter and six-month period of fiscal 2020.

Advisory Services results

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2020**	F2019	**F2020**	F2019
Revenue	**6.6**	5.7	**13.9**	12.0
Delivery expenses[(1)]	**4.2**	4.0	**8.5**	8.1
Gross operating margin	**2.4**	1.7	**5.4**	3.9
Operating and administrative expenses	**14.1**	14.1	**28.0**	28.0
Net loss from Advisory Services	**(11.7)**	(12.4)	**(22.6)**	(24.1)

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

Three and six months ended September 30

The offerings under Advisory Services is considered an investment in entrepreneurs. A net loss of $11.7 million was recorded for the second quarter of fiscal 2020, compared to a $12.4 million net loss recorded for the same quarter last year. Cumulative net loss for the six-month period ended September 30, 2019, was $22.6 million, compared to $24.1 million for the same period last year.

Revenue amounted to $6.6 million for the second quarter of fiscal 2020, 14.6% higher than the $5.7 million recorded last year. Revenue amounted to $13.9 million for the first half of fiscal 2020, 15.4% higher than the $12.0 million recorded last year. Gross operating margin, at $5.4 million for the six months ended September 30, 2019, was higher than the $3.9 million recorded for the same period last year, driven mainly by higher revenues.

Operating and administrative expenses of $14.1 million and $28.0 million, respectively, for the three-month and six-month periods ended September 30, 2019, were in line with those recorded for the same period of fiscal 2019.

Growth & Transition Capital results

($ in millions)	Three months ended September 30 F2020	Three months ended September 30 F2019	Six months ended September 30 F2020	Six months ended September 30 F2019
Net revenue on investments	**38.9**	39.3	**65.4**	72.6
Net change in unrealized appreciation (depreciation) of investments	**(2.2)**	1.8	**(5.9)**	(7.9)
Net foreign exchange gains (losses)	**0.2**	(0.2)	**(0.1)**	0.0
Income before operating and administrative expenses	**36.9**	40.9	**59.4**	64.7
Operating and administrative expenses	**12.4**	11.4	**24.8**	22.0
Net income from Growth & Transition Capital	**24.5**	29.5	**34.6**	42.7
Net income attributable to:				
BDC's shareholder	**22.9**	29.5	**33.0**	41.2
Non-controlling interests	**1.6**	-	**1.6**	1.5
Net income from Growth & Transition Capital	**24.5**	29.5	**34.6**	42.7

As % of average portfolio	Three months ended September 30 F2020	Three months ended September 30 F2019	Six months ended September 30 F2020	Six months ended September 30 F2019
Net revenue on investments	**13.0**	14.7	**11.1**	13.7
Net change in unrealized appreciation (depreciation) of investments	**(0.7)**	0.7	**(1.0)**	(1.5)
Net foreign exchange gains (losses)	**0.1**	(0.1)	**-**	-
Income before operating and administrative expenses	**12.4**	15.3	**10.1**	12.2
Operating and administrative expenses	**4.1**	4.3	**4.2**	4.1
Net income from Growth & Transition Capital	**8.3**	11.0	**5.9**	8.1
Net income attributable to:				
BDC's shareholder	**7.8**	11.0	**5.6**	7.8
Non-controlling interests	**0.5**	-	**0.3**	0.3
Net income from Growth & Transition Capital	**8.3**	11.0	**5.9**	8.1

Three and six months ended September 30

Net income totalled $24.5 million for the second quarter of fiscal 2020, compared to $29.5 million recorded for the same period last year. For the six months ended September 30, 2019, Growth & Transition Capital recorded net income of $34.6 million, compared to $42.7 million for the same period of fiscal 2019. Results for the six-month period ended September 30, 2019 were unfavourably affected by lower net realized gains on the sale of subordinated financing investments compared to the previous year.

Growth & Transition Capital recorded a net change in unrealized depreciation of $2.2 million in the second quarter and $5.9 million for the first half of fiscal 2020, compared to a net change in unrealized appreciation of $1.8 million and a net change in unrealized depreciation of $7.9 million, respectively, during the same periods last year, as detailed below. The $5.9 million net change in unrealized depreciation for the first six-month period of fiscal 2020 was mainly explained by the net fair value depreciation of $11.6 million, partially offset by the reversal of net fair value depreciation due to realized income of $5.7 million.

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2020**	F2019	**F2020**	F2019
Net fair value appreciation (depreciation)	**(5.2)**	6.8	**(11.6)**	2.6
Reversal of net fair value depreciation (appreciation) due to realized income and write-offs	**3.0**	(5.0)	**5.7**	(10.5)
Net change in unrealized appreciation (depreciation) of investments	**(2.2)**	1.8	**(5.9)**	(7.9)

Operating and administrative expenses amounted to $24.8 million for the six-month period ended September 30, 2019, higher than the $22.0 million recorded last year. However, operating and administrative expenses as a percentage of average portfolio remained in line with last year at 4.2%.

Venture Capital results

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2020**	F2019	**F2020**	F2019
Net revenue (loss) on investments	**55.4**	10.9	**224.5**	11.5
Net change in unrealized appreciation (depreciation) of investments	**60.0**	9.4	**(7.1)**	38.6
Net foreign exchange gains (losses)	**7.8**	(10.5)	**(6.2)**	2.0
Income before operating and administrative expenses	**123.2**	9.8	**211.2**	52.1
Operating and administrative expenses	**8.1**	7.5	**15.5**	13.5
Net income (loss) from Venture Capital	**115.1**	2.3	**195.7**	38.6
Net income attributable to:				
BDC's shareholder	**124.5**	3.3	**191.0**	39.1
Non-controlling interests	**(9.4)**	(1.0)	**4.7**	(0.5)
Net income (loss) from Venture Capital	**115.1**	2.3	**195.7**	38.6

Three and six months ended September 30

During the second quarter of fiscal 2020, Venture Capital recorded net income of $115.1 million, compared to net income of $2.3 million for the same period last year. For the six months ended September 30, 2019, net income was $195.7 million, compared to $38.6 million for the same period last year. Results for the first half of fiscal 2020 were positively impacted by net revenue on investments of $224.5 million from realized gains on the sale of investments. This was partially offset by a net change in unrealized depreciation of investments of $7.1 million and net foreign exchange losses of $6.2 million due to foreign exchange fluctuations in the portfolio in U.S. dollars.

Venture Capital recorded a net change in unrealized appreciation of investments of $60.0 million for the second quarter and a depreciation of $7.1 million for the six months ended September 30, 2019, compared to a net change in unrealized appreciation of $9.4 million and $38.6 million, respectively, for the same periods last year, as detailed below.

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2020**	F2019	**F2020**	F2019
Net fair value appreciation (depreciation)	**93.2**	10.9	**190.1**	35.9
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	**(33.2)**	(1.5)	**(197.2)**	2.7
Net change in unrealized appreciation (depreciation) of investments	**60.0**	9.4	**(7.1)**	38.6

On a year-to-date basis, operating and administrative expenses were $15.5 million, $2.0 million higher than those recorded for the same period of fiscal 2019 partly due to management fees associated with the co-creation of two private funds.

Venture Capital Incentive Programs results

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2020**	F2019	**F2020**	F2019
Net revenue (loss) on investments	**0.7**	0.1	**0.7**	0.1
Net change in unrealized appreciation (depreciation) of investments	**8.6**	17.0	**20.5**	37.3
Net foreign exchange gains (losses)	**0.1**	(0.1)	**-**	-
Income (loss) before operating and administrative expenses	**9.4**	17.0	**21.2**	37.4
Operating and administrative expenses	**0.7**	0.4	**1.2**	0.8
Net income (loss) from Venture Capital Incentive Programs	**8.7**	16.6	**20.0**	36.6

Three and six months ended September 30

During the second quarter of fiscal 2020, Venture Capital Incentive Programs (VCIP) recorded net income of $8.7 million, compared to net income of $16.6 million for the same period last year. For the six-month period ended September 30, 2019, VCIP recorded net income of $20.0 million, compared to net income of $36.6 million for the same period last year. The decrease in net income in the first half of fiscal 2020 is attributable to lower net change in unrealized appreciation of investments in both Venture Capital Action Plan and Venture Capital Catalyst Initiative underlying funds compared to last year.

Operating and administrative expenses of $0.7 million and $1.2 million, respectively, for the three-month and six-month periods ended September 30, 2019 were higher than those recorded for the same periods of fiscal 2019 due to start-up costs related to the new Venture Capital Catalyst Initiative.

Cleantech Practice results

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2020**	F2019	**F2020**	F2019
Net revenue on investments	**2.5**	0.4	**3.7**	0.6
Net change in unrealized appreciation (depreciation) of investments	**2.6**	-	**4.6**	-
Net foreign exchange gains (losses)	**-**	-	**0.2**	-
Income before operating and administrative expenses	**5.1**	0.4	**8.5**	0.6
Operating and administrative expenses	**0.8**	0.9	**1.8**	1.7
Net income from Cleantech Practice	**4.3**	(0.5)	**6.7**	(1.1)

Three and six months ended September 30

Cleantech Practice reported net income of $4.3 million and $6.7 million for the three-month and six-month periods ended September 30, 2019, compared to net losses of $0.5 million and $1.1 million, respectively, during the same periods last year. Results of fiscal 2020 were favourably impacted by higher net change in unrealized appreciation of investments.

Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows

Effective April 1 of fiscal 2020, BDC adopted IFRS 16, *Leases* and applied the exemption whereby comparative information has not been restated. The financial impact of applying the new standard resulted in the recognition of a right-of-use asset of approximately $116.0 million and the recognition of a lease liability of approximately $123.0 million. Refer to Note 4 to the financial statements for more information on the transition to IFRS 16.

As at September 30, 2019, total BDC assets amounted to $32.0 billion, an increase of $1.4 billion from March 31, 2019, largely due to the $1.0 billion increase in our net loans portfolio and to the $0.2 billion increase in our subordinate financing investments.

At $27.0 billion, the loans portfolio represented BDC's largest asset ($27.6 billion in gross portfolio less a $0.6 billion allowance for expected credit losses). The gross loans portfolio grew by 4.1% in the six months after March 31, 2019, reflecting an increase in the level of activity.

BDC's investment portfolios, which include the subordinate financing, venture capital portfolios and asset-backed securities, stood at $4.2 billion, an increase of $0.3 billion since March 31, 2019.

As at September 30, 2019, BDC recorded a net defined benefit liability of $375.9 million for the registered pension plan and the other plans. This represented an increase of $114.1 million, compared to the total net defined benefit liability as at March 31, 2019, primarily as a result of remeasurement losses recorded in the first six months of fiscal 2020. 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. BDC's liquidities, which ensure funds are available to meet its cash outflows, totalled $675.0 million as at September 30, 2019, compared to $704.0 million as at March 31, 2019. For the six-month period ended September 30, 2019, operating activities used $756.0 million, mainly to support the growth of the loans portfolio. Cash flows used by investing activities amounted to $56.1 million, reflecting net disbursements of asset-backed securities and subordinate financing investments, in addition to net proceeds on the sale of venture capital investments. Financing activities provided $783.2 million in cash flow, mainly as a result of the issuance of long-term notes.

As at September 30, 2019, BDC funded its portfolios and liquidities with borrowings of $22.9 billion and total equity of $8.5 billion. Borrowings comprised $19.9 billion in short-term notes and $2.9 billion in long-term notes.

Capital adequacy

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

BDC's internal capital ratio stood at 135% as at September 30, 2019, exceeding its target capital ratio of 134%.

Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)

Management's Responsibility for Financial Information

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

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

Michael Denham
President and Chief Executive Officer

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

Montreal, Canada
October 30, 2019

Consolidated Statement of Financial Position

(unaudited)

(in thousands of Canadian dollars)	Notes	**September 30, 2019**	March 31, 2019
ASSETS			
Cash and cash equivalents		**674,987**	703,980
Derivative assets		**8,312**	10,342
Loans			
Loans, gross carrying amount	7	**27,639,808**	26,545,464
Less: allowance for expected credit losses	7	**(686,280)**	(629,242)
Loans, net of allowance for expected credit losses		**26,953,528**	25,916,222
Investments			
Asset-backed securities	8	**753,293**	700,343
Subordinate financing investments	9	**1,305,576**	1,152,182
Venture capital investments	10	**2,093,750**	2,027,778
Total investments		**4,152,619**	3,880,303
Property and equipment		**65,772**	60,030
Intangible assets		**39,315**	38,935
Right-of-use-assets		**110,803**	-
Net defined benefit asset		**-**	20,483
Other assets		**22,519**	26,159
Total assets		**32,027,855**	30,656,454
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities		**101,989**	141,412
Derivative liabilities		**63**	5,940
Borrowings			
Short-term notes		**19,928,515**	20,951,914
Long-term notes		**2,926,197**	1,442,650
Total borrowings		**22,854,712**	22,394,564
Lease Liabilities			
Short-term lease liabilities		**11,492**	-
Long-term lease liabilities		**108,047**	-
Total lease liabilities		**119,539**	-
Net defined benefit liability		**375,854**	282,206
Other liabilities		**74,491**	76,572
Total liabilities		**23,526,648**	22,900,694
Equity			
Share capital	11	**3,064,900**	2,602,900
Contributed surplus		**27,778**	27,778
Retained earnings		**5,356,501**	5,076,074
Accumulated other comprehensive income		**6,895**	7,373
Equity attributable to BDC's shareholder		**8,456,074**	7,714,125
Non-controlling interests		**45,133**	41,635
Total equity		**8,501,207**	7,755,760
Total liabilities and equity		**32,027,855**	30,656,454

Guarantees (Note 13)

Commitments (Notes 7, 8, 9, and 10)

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

Consolidated Statement of Income

(unaudited)

(in thousands of Canadian dollars)	Three months ended September 30		Six months ended on September 30	
	2019	2018	**2019**	2018
Interest income	**444,765**	399,115	**876,287**	772,362
Interest expense	**92,764**	65,447	**184,928**	121,852
Net interest income	**352,001**	333,668	**691,359**	650,510
Net realized gains (losses) on investments	**52,202**	23,897	**220,031**	30,617
Revenue from Advisory Services	**6,590**	5,749	**13,902**	12,025
Fee and other income	**26,749**	10,488	**38,010**	22,953
Net revenue	**437,542**	373,802	**963,302**	716,105
Provision for expected credit losses	**(52,701)**	(34,598)	**(129,210)**	(71,307)
Net change in unrealized appreciation (depreciation) of investments	**71,209**	28,189	**12,718**	67,981
Net foreign exchange gains (losses)	**7,318**	(12,864)	**(8,647)**	(2,829)
Net gains (losses) on other financial instruments	**209**	88	**148**	544
Income before operating and administrative expenses	**463,577**	354,617	**838,311**	710,494
Salaries and benefits	**112,360**	101,262	**218,835**	200,023
Premises and equipment	**11,149**	10,746	**21,989**	21,610
Other expenses	**45,315**	28,977	**79,771**	54,219
Operating and administrative expenses	**168,824**	140,985	**320,595**	275,852
Net income	**294,753**	213,632	**517,716**	434,642
Net income attributable to:				
BDC's shareholder	**302,479**	214,674	**511,409**	433,652
Non-controlling interests	**(7,726)**	(1,042)	**6,307**	990
Net income	**294,753**	213,632	**517,716**	434,642

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 on September 30	
	2019	2018	**2019**	2018
Net income	**294,753**	213,632	**517,716**	434,642
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on fair value through other comprehensive income assets	**(1,515)**	(607)	**115**	(344)
Net unrealized gains (losses) on cash flow hedges	**-**	-	**-**	2,473
Reclassification to net income of losses (gains) on cash flow hedges	**(297)**	(279)	**(593)**	(557)
Net change in unrealized gains (losses) on cash flow hedges	**(297)**	(279)	**(593)**	1,916
Total items that may be reclassified subsequently to net income	**(1,812)**	(886)	**(478)**	1,572
Items that will not be reclassified to net income				
Remeasurements of net defined benefit asset or liability	**(9,745)**	44,844	**(102,582)**	109,682
Other comprehensive income (loss)	**(11,557)**	43,958	**(103,060)**	111,254
Total comprehensive income	**283,196**	257,590	**414,656**	545,896
Total comprehensive income attributable to:				
BDC's shareholder	**290,922**	258,632	**408,349**	544,906
Non-controlling interests	**(7,726)**	(1,042)	**6,307**	990
Total comprehensive income	**283,196**	257,590	**414,656**	545,896

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

Consolidated Statement of Changes in Equity

For the three months ended September 30
(unaudited)

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss): FVOCI assets (1)	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at June 30, 2019	**2 602 900**	**27 778**	**5 063 767**	**4 381**	**4 326**	**8 707**	**7 703 152**	**55 593**	**7 758 745**
Total comprehensive income									
Net income			**302 479**				**302 479**	**(7 726)**	**294 753**
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on fair value through other comprehensive income assets				**(1 515)**		**(1 515)**	**(1 515)**		**(1 515)**
Net change in unrealized gains (losses) on cash flow hedges					**(297)**	**(297)**	**(297)**		**(297)**
Remeasurements of net defined benefit asset or liability			**(9 745)**				**(9 745)**		**(9 745)**
Other comprehensive income (loss)	**-**	**-**	**(9 745)**	**(1 515)**	**(297)**	**(1 812)**	**(11 557)**	**-**	**(11 557)**
Total comprehensive income	**-**	**-**	**292 734**	**(1 515)**	**(297)**	**(1 812)**	**290 922**	**(7 726)**	**283 196**
Distributions to non-controlling interests								**(2 734)**	**(2 734)**
Issuance of common shares	**462 000**						**462 000**		**462 000**
Transactions with owner, recorded directly in equity	**462 000**	**-**	**-**	**-**	**-**	**-**	**462 000**	**(2 734)**	**459 266**
Balance as at September 30, 2019	**3 064 900**	**27 778**	**5 356 501**	**2 866**	**4 029**	**6 895**	**8 456 074**	**45 133**	**8 501 207**

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

(1) Fair value through other comprehensive income assets

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

Consolidated Statement of Changes in Equity

For the six months ended September 30
(unaudited)

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) FVOCI assets [1]	Accumulated other comprehensive income (loss) Cash flow hedges	Accumulated other comprehensive income (loss) Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at March 31, 2019	**2 602 900**	**27 778**	**5 076 074**	**2 751**	**4 622**	**7 373**	**7 714 125**	**41 635**	**7 755 760**
Total comprehensive income									
Net income			**511 409**				**511 409**	**6 307**	**517 716**
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on fair value through other comprehensive income assets				**115**		**115**	**115**		**115**
Net change in unrealized gains (losses) on cash flow hedges					**(593)**	**(593)**	**(593)**		**(593)**
Remeasurements of net defined benefit asset or liability			**(102 582)**				**(102 582)**		**(102 582)**
Other comprehensive income (loss)	**-**	**-**	**(102 582)**	**115**	**(593)**	**(478)**	**(103 060)**	**-**	**(103 060)**
Total comprehensive income	**-**	**-**	**408 827**	**115**	**(593)**	**(478)**	**408 349**	**6 307**	**414 656**
Dividends on common shares			**(128 400)**				**(128 400)**		**(128 400)**
Distributions to non-controlling interests								**(2 809)**	**(2 809)**
Transactions with owner, recorded directly in equity	**462 000**	**-**	**(128 400)**	**-**	**-**	**-**	**333 600**	**(2 809)**	**330 791**
Balance as at September 30, 2019	**3 064 900**	**27 778**	**5 356 501**	**2 866**	**4 029**	**6 895**	**8 456 074**	**45 133**	**8 501 207**

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

(1) Fair value through other comprehensive income assets

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

Consolidated Statement of Cash Flows

(unaudited)

(in thousands of Canadian dollars)	Three months ended September 30 2019	Three months ended September 30 2018	Six months ended on September 30 2019	Six months ended on September 30 2018
Operating activities				
Net income	**294,753**	213,632	**517,716**	434,642
Adjustments to determine net cash flows				
Interest income	**(444,765)**	(399,115)	**(876,287)**	(772,362)
Interest expense	**92,281**	65,447	**183,957**	121,852
Interest on lease liabilities	**483**	-	**971**	-
Net realized losses (gains) on investments	**(52,202)**	(23,897)	**(220,031)**	(30,617)
Provision for expected credit losses	**52,701**	34,598	**129,210**	71,307
Net change in unrealized depreciation (appreciation) of investments	**(71,209)**	(28,189)	**(12,718)**	(67,981)
Net unrealized foreign exchange losses (gains)	**(7,293)**	9,207	**7,062**	(7,638)
Net unrealized losses (gains) on other financial instruments	**87**	190	**444**	987
Defined benefits funding below (in excess of) amounts expensed	**7,740**	7,751	**11,549**	8,955
Depreciation of property and equipment, and amortization of intangible assets	**4,815**	4,756	**9,425**	9,512
Depreciation of right-of-use assets	**3,380**	-	**7,025**	-
Other	**(4,108)**	(1,471)	**(6,810)**	(12,106)
Interest expense paid	**(94,089)**	(61,766)	**(182,644)**	(116,018)
Interest income received	**445,106**	387,445	**868,822**	752,835
Changes in operating assets and liabilities				
Net change in loans	**(559,033)**	(503,721)	**(1,162,830)**	(1,132,658)
Net change in accounts payable and accrued liabilities	**(46,474)**	(47,571)	**(39,423)**	(38,801)
Net change in other assets and other liabilities	**1,086**	378	**8,527**	(1,166)
Net cash flows provided (used) by operating activities	**(376,741)**	(342,326)	**(756,035)**	(779,257)
Investing activities				
Disbursements for asset-backed securities	**(101,846)**	(123,724)	**(231,807)**	(239,895)
Repayments and proceeds on sale of asset-backed securities	**101,888**	59,590	**178,929**	114,418
Disbursements for subordinate financing investments	**(185,474)**	(81,099)	**(329,832)**	(154,253)
Repayments of subordinate financing investments	**118,614**	84,969	**178,305**	150,070
Disbursements for venture capital investments	**(90,153)**	(35,243)	**(146,371)**	(111,546)
Proceeds on sale of venture capital investments	**107,663**	36,357	**310,181**	80,554
Acquisition of property and equipment	**(4,074)**	(7,663)	**(10,417)**	(10,922)
Acquisition of intangible assets	**(2,638)**	(2,166)	**(5,130)**	(5,291)
Net cash flows provided (used) by investing activities	**(56,020)**	(68,979)	**(56,142)**	(176,865)
Financing activities				
Net change in short-term notes	**(870,000)**	134,980	**(1,020,000)**	260,009
Issue of long-term notes	**830,000**	270,000	**1,480,000**	765,000
Distributions to non-controlling interests	**(2,734)**	(98)	**(2,809)**	(6,214)
Capital injections from non-controlling interests	**-**	1,264	**-**	1,264
Issuance of common shares	**462,000**	-	**462,000**	-
Dividends paid on common shares	**-**	-	**(128,400)**	(69,700)
Payment of lease liabilities	**(3,712)**	-	**(7,607)**	-
Net cash flows provided (used) by financing activities	**415,554**	406,146	**783,184**	950,359
Net increase (decrease) in cash and cash equivalents	**(17,207)**	(5,159)	**(28,993)**	(5,763)
Cash and cash equivalents at beginning of period	**692,194**	672,266	**703,980**	672,870
Cash and cash equivalents at end of period	**674,987**	667,107	**674,987**	667,107

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

Notes to the Consolidated Financial Statements

(unaudited in thousands of Canadian dollars)

1. BDC general description

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

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

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

2. Basis of preparation

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

BDC's condensed quarterly Consolidated Financial Statements follow the same basis of preparation as our audited Consolidated Financial Statements for the year ended March 31, 2019, except for changes resulting from the adoption of *IFRS 16, Leases,* on April 1, 2019. Comparative information for the year ended March 31, 2019 has not been restated. They should be read in conjunction with the audited Consolidated Financial Statements for the year ended March 31, 2019 and the accompanying notes as set out on pages 62 to 124 of BDC's 2019 Annual Report.

The condensed quarterly Consolidated Financial Statements have also been prepared in accordance with the accounting policies BDC expects to use in its annual Consolidated Financial Statements for the year ending March 31, 2020. If BDC changes the application of these policies, it may result in a restatement of these condensed quarterly Consolidated Financial Statements.

The condensed quarterly Consolidated Financial Statements were approved for issue by the Board of Directors on October 30, 2019.

3.

Significant accounting policies

BDC's condensed quarterly Consolidated Financial Statements follow the same accounting policies as our audited Consolidated Financial Statements for the year ended March 31, 2019, except for changes resulting from the adoption of *IFRS 16, Leases,* on April 1, 2019, as set out below. These policies have been consistently applied to all periods presented in these condensed quarterly Consolidated Financial Statements and have been applied consistently by all entities consolidated by BDC.

These condensed quarterly Consolidated Financial Statements must be read in conjunction with BDC's 2019 Annual Report and the accompanying notes, as set out on pages 62 to 124 of our 2019 Annual Report.

4.

Adoption of IFRS 16

On January 13, 2016, the IASB issued a new standard, IFRS 16, *Leases*, which supersedes IAS 17, *Leases* and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2019, which for BDC is April 1, 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The standard provides a single lessee accounting model requiring lessees to recognize assets and liabilities for all leases, unless the lease term is 12 months or less, or if the underlying asset has a low value. For lessors, the new standard does not provide any significant changes other than increased disclosure requirements. BDC has elected to apply the following transition reliefs and practical expedients:

- Existing contracts at the date of transition will not be reassessed to determine whether they are, or contain, a lease under IFRS 16.
- Follow the modified retrospective approach under which a lessee does not restate comparative information, using the option where the right-of-use asset is equal to the lease liability, less an adjustment for prepaids and accrued payments.

The adoption of IFRS 16 resulted in the recognition of a right-of-use asset of approximately $116 million and a lease liability of approximately $123 million.

5.
Significant accounting judgements, estimates and assumptions

Preparation of the Consolidated Financial Statements 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 80 of our 2019 Annual Report.

6.
Fair value of financial instruments

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

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

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

(unaudited, in thousands of Canadian dollars)

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

	Fair value measurements using			September 30, 2019
	Level 1	Level 2	Level 3	Total fair value
Assets				
Derivative assets		**8,312**		**8,312**
Asset-backed securities		**753,293**		**753,293**
Subordinate financing investments	**9,724**		**1,295,852**	**1,305,576**
Venture capital investments	**115,301**		**1,978,449**	**2,093,750**
	125,025	**761,605**	**3,274,301**	**4,160,931**
Liabilities				
Derivative liabilities		**63**		**63**
Long-term notes designated as fair value through profit or loss		**134,885**		**134,885**
	-	**134,948**	**-**	**134,948**

	Fair value measurements using			March 31, 2019
	Level 1	Level 2	Level 3	Total fair value
Assets				
Derivative assets		10,342		10,342
Asset-backed securities		700,343		700,343
Subordinate financing investments	7,423		1,144,759	1,152,182
Venture capital investments	236,660		1,791,118	2,027,778
	244,083	710,685	2,935,877	3,890,645
Liabilities				
Derivative liabilities		5,940		5,940
Long-term notes designated as fair value through profit or loss		136,028		136,028
	-	141,968	-	141,968

(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.

	Subordinate financing investments	**Venture capital investments**	**Total**
Fair value as at April 1, 2019	**1,144,759**	**1,791,118**	**2,935,877**
Net realized gains (losses) on investments	**3,890**	**39,974**	**43,864**
Net change in unrealized appreciation (depreciation) of investments	**(1,046)**	**139,585**	**138,539**
Net unrealized foreign exchange gains (losses) on investments	**-**	**(4,264)**	**(4,264)**
Disbursements for investments	**329,832**	**142,346**	**472,178**
Repayments of investments and other	**(181,583)**	**(109,444)**	**(291,027)**
Transfers from level 1 to level 3	**-**	**8,312**	**8,312**
Transfers from level 3 to level 1	**-**	**(29,178)**	**(29,178)**
Fair value as at September 30, 2019	**1,295,852**	**1,978,449**	**3,274,301**

	Subordinate financing investments	Venture capital investments	Total
Fair value as at April 1, 2018	1,050,452	1,513,777	2,564,229
Net realized gains (losses) on investments	14,594	19,463	34,057
Net change in unrealized appreciation (depreciation) of investments	(8,787)	154,130	145,343
Net unrealized foreign exchange gains (losses) on investments	-	18,696	18,696
Disbursements for investments	385,376	206,186	591,562
Repayments of investments and other	(296,876)	(121,004)	(417,880)
Transfers from level 3 to level 1	-	(130)	(130)
Fair value as at March 31, 2019	1,144,759	1,791,118	2,935,877

(unaudited, in thousands of Canadian dollars)

7.
Loans

The following tables summarize loans outstanding by contractual maturity date.

	Within 1 year	1 to 5 years	Over 5 years	Total gross carrying amount	Allowance for expected credit losses	Total net carrying amount
Performing	**565,226**	**3,003,837**	**23,134,575**	**26,703,638**	**(324,635)**	**26,379,003**
Impaired	**22,857**	**142,006**	**771,307**	**936,170**	**(361,645)**	**574,525**
Loans as at September 30, 2019	**588,083**	**3,145,843**	**23,905,882**	**27,639,808**	**(686,280)**	**26,953,528**

	Within 1 year	1 to 5 years	Over 5 years	Total gross carrying amount	Allowance for expected credit losses	Total net carrying amount
Performing	461,618	2,929,543	22,271,524	25,662,685	(290,507)	25,372,178
Impaired	27,980	130,559	724,240	882,779	(338,735)	544,044
Loans as at March 31, 2019	489,598	3,060,102	22,995,764	26,545,464	(629,242)	25,916,222

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

	Allowance for expected credit losses			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at April 1, 2019	**106,880**	**183,627**	**338,735**	**629,242**
Provision for credit losses				
Transfer to Stage 1[(1)]	**36,353**	**(34,847)**	**(1,506)**	**-**
Transfer to Stage 2[(1)]	**(20,562)**	**34,128**	**(13,566)**	**-**
Transfer to Stage 3[(1)]	**(885)**	**(21,792)**	**22,677**	**-**
Net remeasurement of allowance for expected credit losses[(2)]	**(35,161)**	**45,650**	**88,364**	**98,853**
Financial assets that have been fully repaid	**(6,169)**	**(10,121)**	**(15,814)**	**(32,104)**
New financial assets originated	**38,379**	**9,201**	**-**	**47,580**
Write-offs	**-**	**-**	**(67,000)**	**(67,000)**
Recoveries	**-**	**-**	**9,704**	**9,704**
Foreign exchange and other movements	**(7)**	**(39)**	**51**	**5**
Balance as at September 30, 2019	**118,828**	**205,807**	**361,645**	**686,280**

	Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2018	110,259	147,304	314,884	572,447
Provision for credit losses				
Transfer to Stage 1[(1)]	66,972	(64,383)	(2,589)	-
Transfer to Stage 2[(1)]	(42,875)	77,483	(34,608)	-
Transfer to Stage 3[(1)]	(1,663)	(32,062)	33,725	-
Net remeasurement of allowance for expected credit losses[(2)]	(86,647)	59,420	163,910	136,683
Financial assets that have been fully repaid	(11,502)	(19,702)	(37,108)	(68,312)
New financial assets originated	72,440	15,351	-	87,791
Write-offs	-	-	(119,061)	(119,061)
Recoveries	-	-	15,863	15,863
Foreign exchange and other movements	(104)	216	3,719	3,831
Balance as at March 31, 2019	106,880	183,627	338,735	629,242

(1) Provides the cumulative movement from the previous month allowance for expected credit losses due to changes in stages prior to remeasurements.
(2) Explains the movement in the allowance for expected credit losses attributable to changes in the gross carrying amount and credit risk of existing loans, changes to inputs and assumptions and partial repayments.

(unaudited, in thousands of Canadian dollars)

Concentrations of total loans outstanding and undisbursed commitments

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

Undisbursed amounts of authorized loans were $3,375,041 as at September 30, 2019 ($1,292,675 at fixed rates; $2,082,366 at floating rates). The weighted average effective interest rate was 5.2% on loan commitments (5.4% as at March 31, 2019).

	September 30, 2019		March 31, 2019	
Geographic distribution	**Outstanding**	**Commitments**	Outstanding	Commitments
Newfoundland and Labrador	**868,759**	**59,525**	872,253	64,505
Prince Edward Island	**75,339**	**5,427**	76,710	742
Nova Scotia	**662,148**	**102,245**	611,653	84,699
New Brunswick	**507,103**	**53,060**	503,653	56,362
Quebec	**8,597,623**	**960,199**	8,391,225	871,593
Ontario	**7,582,678**	**1,014,602**	7,274,249	1,041,457
Manitoba	**806,691**	**94,234**	809,126	77,695
Saskatchewan	**797,418**	**36,215**	805,488	44,786
Alberta	**3,975,760**	**483,451**	3,794,416	607,375
British Columbia	**3,599,257**	**538,705**	3,248,568	524,922
Yukon	**118,358**	**7,043**	108,785	16,102
Northwest Territories and Nunavut	**48,674**	**20,335**	49,338	8,022
Total loans outstanding	**27,639,808**	**3,375,041**	26,545,464	3,398,260

	September 30, 2019		March 31, 2019	
Industry sector	**Outstanding**	**Commitments**	Outstanding	Commitments
Manufacturing	**6,209,160**	**873,537**	6,172,012	855,002
Wholesale and retail trade	**5,040,393**	**635,695**	4,925,716	527,819
Service industries	**4,002,688**	**436,032**	3,818,955	465,564
Tourism	**3,310,041**	**338,629**	3,213,509	404,885
Commercial properties	**3,047,824**	**222,656**	2,894,525	176,480
Construction	**2,280,836**	**264,949**	2,031,354	286,689
Transportation and storage	**1,681,570**	**192,501**	1,550,291	201,925
Resources	**1,146,950**	**210,008**	1,062,907	279,786
Other	**920,346**	**201,034**	876,195	200,110
Total loans outstanding	**27,639,808**	**3,375,041**	26,545,464	3,398,260

(unaudited, in thousands of Canadian dollars)

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

	Allowance for credit losses on commitments			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at April 1, 2019	**17,984**	**4,481**	**-**	**22,465**
Net remeasurement of the allowance for expected credit losses	**(6,013)**	**4,414**	**-**	**(1,599)**
Net increase (decrease) in commitments	**6,919**	**(1,244)**	**-**	**5,675**
Foreign exchange and other movements	**7**	**-**	**-**	**7**
Balance as at September 30, 2019	**18,897**	**7,651**	**-**	**26,548**

	Allowance for credit losses on commitments			
	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2018	16,320	5,367	-	21,687
Net remeasurement of the allowance for expected credit losses	(2,371)	8,786	-	6,415
Net increase (decrease) in commitments	4,044	(9,689)	-	(5,645)
Foreign exchange and other movements	(9)	17	-	8
Balance as at March 31, 2019	17,984	4,481	-	22,465

8.

Asset-backed securities

The following table summarizes asset-backed securities ("ABS") by classification of financial instruments. No ABS were impaired as at September 30, 2019 or March 31, 2019. No allowances for expected credit losses were recorded for disbursed and undisbursed ABS at fair value through other comprehensive income as at September 30, 2019 or March 31, 2019.

	September 30, 2019	March 31, 2019
Fair value through other comprehensive income		
Principal amount	**741,254**	688,049
Cumulative fair value appreciation (depreciation)	**2,865**	2,751
Carrying value	**744,119**	690,800
Yield	**2.69%**	2.66%
Fair value through profit or loss		
Principal amount	**9,054**	9,450
Cumulative fair value appreciation (depreciation)	**120**	93
Carrying value	**9,174**	9,543
Yield	**7.80%**	7.86%
Asset-backed securities	**753,293**	700,343

Undisbursed amounts of accepted ABS were $220,559 as at September 30, 2019 ($299,269 as at March 31, 2019).

(unaudited, in thousands of Canadian dollars)

9.
Subordinate financing investments

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

	Within 1 year	1 to 5 years	Over 5 years	Total cost	Total fair value
As at September 30, 2019	**157,729**	**737,771**	**457,506**	**1,353,006**	**1,305,576**
As at March 31, 2019	157,105	686,162	357,600	1,200,867	1,152,182

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

Concentrations of subordinate financing investments and commitments

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

Undisbursed amounts of authorized investments totalled $212,385 as at September 30, 2019 ($150,874 at fixed rates; $61,511 at floating rates). The weighted average effective interest rate was 9.0% on subordinate financing commitments (9.0% as at March 31, 2019), excluding non-interest return.

			September 30, 2019			March 31, 2019
Geographic distribution	**Fair value**	**Cost**	**Commitments**	Fair value	Cost	Commitments
Newfoundland and Labrador	**21,038**	**26,491**	**6,875**	20,059	24,952	7,225
Nova Scotia	**11,092**	**12,527**	**7,000**	11,879	12,810	-
New Brunswick	**24,561**	**21,432**	**15,350**	25,584	23,496	1,200
Quebec	**482,688**	**489,245**	**57,389**	455,713	459,756	41,660
Ontario	**429,838**	**456,340**	**100,363**	378,353	412,000	80,685
Manitoba	**715**	**2,102**	**-**	713	2,101	-
Saskatchewan	**49,921**	**53,273**	**1,000**	51,023	51,337	-
Alberta	**155,839**	**170,803**	**8,988**	90,591	104,241	9,844
British Columbia	**126,452**	**117,482**	**15,420**	114,348	106,358	60,452
Yukon	**463**	**443**	**-**	450	443	-
Northwest Territories and Nunavut	**2,969**	**2,868**	**-**	3,469	3,373	-
Subordinate financing investments (1)	**1,305,576**	**1,353,006**	**212,385**	1,152,182	1,200,867	201,066

			September 30, 2019			March 31, 2019
Industry sector	**Fair value**	**Cost**	**Commitments**	Fair value	Cost	Commitments
Manufacturing	**425,349**	**442,127**	**58,527**	389,911	409,767	90,817
Service industries	**348,317**	**350,381**	**75,361**	316,625	320,662	43,472
Wholesale and retail trade	**202,555**	**219,692**	**34,160**	187,763	200,700	38,235
Resources	**97,656**	**115,097**	**5,100**	40,387	58,791	350
Information industries	**72,893**	**74,915**	**18,475**	65,332	66,343	10,575
Construction	**60,328**	**63,327**	**4,000**	57,165	58,698	10,000
Transportation and storage	**44,754**	**43,560**	**3,300**	44,859	48,042	3,450
Tourism	**10,947**	**11,041**	**6,162**	11,647	11,625	4,167
Commercial properties	**10,680**	**10,639**	**-**	1,791	1,734	-
Educational services	**6,551**	**6,480**	**7,300**	6,466	6,386	-
Other	**25,546**	**15,747**	**-**	30,236	18,119	-
Subordinate financing investments (1)	**1,305,576**	**1,353,006**	**212,385**	1,152,182	1,200,867	201,066

(1) Subordinate financing commitments included $850 in the Financing segment, $162,365 in the Growth & Transition Capital segment and $49,170 in the Cleantech Practice segment as at September 30, 2019 ($550, $142,308 and $58,208, respectively, as at March 31, 2019).

(unaudited, in thousands of Canadian dollars)

10.

Venture capital investments

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

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

Venture Capital Action Plan is a federal government initiative to invest $390 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.

Venture Capital Catalyst Initiative (VCCI) is also a government-sponsored initiative whereby $450 million is made available through BDC over three years to provide late-stage venture capital to support the growth of innovative start-ups.

Cleantech Practice will deploy $600 million entrusted by the federal government in debt and equity transactions to help build globally competitive Canadian cleantech firms and a commercially sustainable cleantech industry.

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

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

			September 30, 2019			March 31, 2019
Investment type	**Fair value**	**Cost**	**Commitments**	Fair value	Cost	Commitments
Direct investments						
Venture Capital	**893,303**	**633,419**	**14,493**	906,780	603,198	13,275
Funds [1]						
Venture Capital	**700,691**	**428,410**	**410,928**	659,447	418,244	382,140
Venture Capiltal Action Plan	**487,800**	**370,515**	**20,485**	461,547	368,694	22,761
Venture Capital Catalyst Initiative	**9,140**	**13,148**	**401,137**	4	4	298,265
Venture Capital Incentive Programs	**496,940**	**383,663**	**421,622**	461,551	368,698	321,026
Cleantech Practice	**2,816**	**4,708**	**35,133**	-	-	40,024
	1,200,447	**816,781**	**867,683**	1,120,998	786,942	743,190
Venture capital investments	**2,093,750**	**1,450,200**	**882,176**	2,027,778	1,390,140	756,465

[1] As at September 30, 2019, BDC has invested in 80 funds through its VC segment, 21 funds through its VCIP segment and 2 funds through its Cleantech Practice segment (76, 17 and 2 funds, respectively, as at March 31, 2019).

(unaudited, in thousands of Canadian dollars)

Concentrations of total venture capital investments and commitments

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

			September 30, 2019			March 31, 2019
Industry sector	**Fair value**	**Cost**	**Commitments**	Fair value	Cost	Commitments
Information technology	**464,786**	**294,400**	**8,100**	364,372	263,658	8,338
Biotechnology and pharmacology	**130,840**	**73,799**	**4,696**	278,487	87,102	-
Industrial	**67,106**	**26,705**	**-**	69,458	24,505	-
Communications	**88,782**	**64,066**	**500**	61,974	58,973	607
Electronics	**48,288**	**55,510**	**1,197**	49,789	55,818	3,252
Medical and health	**31,957**	**61,479**	**-**	26,424	56,852	1,078
Energy	**20,734**	**37,240**	**-**	22,651	36,570	-
Other	**40,810**	**20,220**	**-**	33,625	19,720	-
Total direct investments	**893,303**	**633,419**	**14,493**	906,780	603,198	13,275

11.

Share capital

An unlimited number of common shares, having a par value of $100 each, is authorized. As at September 30, 2019, there were 30,649,000 common shares outstanding (26,029,000 as at March 31, 2019).

On July 19, 2019, BDC issued 4,620,000 common shares for capital injections in Venture Capital Catalyst Initiative and Cleantech Practice, and received $462 million.

Statutory limitations

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

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

During the six months ended September 30, 2019 and the year ended March 31, 2019, BDC met both of these statutory limitations.

Capital adequacy

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

12.

Segmented information

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

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

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

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

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

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

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

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

(unaudited, in thousands of Canadian dollars)

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

Three months ended September 30, 2019

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice
Interest income	**444,765**	417,682	-	25,782	-	-	1,301
Interest expense	**92,764**	90,066	-	2,698	-	-	-
Net interest income	**352,001**	327,616	-	23,084	-	-	1,301
Net realized gains (losses) on investments	**52,202**	-	-	4,211	47,991	-	-
Revenue from Advisory Services	**6,590**	-	6,590	-	-	-	-
Fee and other income	**26,749**	5,885	-	11,587	7,395	679	1,203
Net revenue (loss)	**437,542**	333,501	6,590	38,882	55,386	679	2,504
Provision for expected credit losses	**(52,701)**	(52,701)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	**71,209**	2,148	-	(2,217)	60,047	8,584	2,647
Net foreign exchange gains (losses)	**7,318**	(803)	-	253	7,739	107	22
Net gains (losses) on other financial instruments	**209**	209	-	-	-	-	-
Income (loss) before operating and administrative expenses	**463,577**	282,354	6,590	36,918	123,172	9,370	5,173
Salaries and benefits	**112,360**	83,150	12,816	10,288	5,112	304	690
Premises and equipment	**11,149**	8,817	1,044	582	599	54	53
Other expenses	**45,315**	36,592	4,476	1,518	2,344	287	98
Operating and administrative expenses	**168,824**	128,559	18,336	12,388	8,055	645	841
Net income (loss)	**294,753**	153,795	(11,746)	24,530	115,117	8,725	4,332
Net income (loss) attributable to:							
BDC's shareholder	**302,479**	153,795	(11,746)	22,891	124,482	8,725	4,332
Non-controlling interests	**(7,726)**	-	-	1,639	(9,365)	-	-
Net income (loss)	**294,753**	153,795	(11,746)	24,530	115,117	8,725	4,332
Business segment portfolio as at September 30, 2019							
Asset-backed securities	**753,293**	753,293	-	-	-	-	-
Loans, net of allowance for expected credit losses	**26,953,528**	26,953,528	-	-	-	-	-
Subordinate financing investments	**1,305,576**	11,131	-	1,205,244	-	-	89,201
Venture capital investments	**2,093,750**	-	-	-	1,593,994	496,940	2,816
Total portfolio	**31,106,147**	27,717,952	-	1,205,244	1,593,994	496,940	92,017

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)

							Three months ended September 30, 2018
	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice
Interest income	**399,115**	375,743	-	23,007	-	-	365
Interest expense	**65,447**	63,437	-	2,010	-	-	-
Net interest income	**333,668**	312,306	-	20,997	-	-	365
Net realized gains (losses) on investments	**23,897**	-	-	13,774	10,123	-	-
Revenue from Advisory Services	**5,749**	-	5,749	-	-	-	-
Fee and other income	**10,488**	5,035	1	4,505	831	70	46
Net revenue (loss)	**373,802**	317,341	5,750	39,276	10,954	70	411
Provision for expected credit losses	**(34,598)**	(34,598)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	**28,189**	(11)	-	1,814	9,393	16,993	-
Net foreign exchange gains (losses)	**(12,864)**	(2,017)	-	(216)	(10,533)	(98)	-
Net gains (losses) on other financial instruments	**88**	88	-	-	-	-	-
Income (loss) before operating and administrative expenses	**354,617**	280,803	5,750	40,874	9,814	16,965	411
Salaries and benefits	**101,262**	73,458	12,693	9,667	4,477	230	737
Premises and equipment	**10,746**	8,537	1,110	563	452	32	52
Other expenses	**28,977**	20,713	4,369	1,134	2,533	129	99
Operating and administrative expenses	**140,985**	102,708	18,172	11,364	7,462	391	888
Net income (loss)	**213,632**	178,095	(12,422)	29,510	2,352	16,574	(477)
Net income (loss) attributable to:							
BDC's shareholder	**214,674**	178,095	(12,422)	29,522	3,382	16,574	(477)
Non-controlling interests	**(1,042)**	-	-	(12)	(1,030)	-	-
Net income (loss)	**213,632**	178,095	(12,422)	29,510	2,352	16,574	(477)
Business segment portfolio as at September 30, 2018							
Asset-backed securities at FVTOCI	**598,038**	598,038	-	-	-	-	-
Loans, net of allowance for expected credit losses	**24,975,161**	24,975,161	-	-	-	-	-
Subordinate financing investments	**1,076,602**	10,132	-	1,038,999	-	-	27,471
Venture capital investments	**1,774,094**	-	-	-	1,335,535	438,559	-
Total portfolio	**28,423,895**	25,583,331	-	1,038,999	1,335,535	438,559	27,471

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)

Six months ended September 30, 2019

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice
Interest income	**876,287**	823,153	-	50,918	-	-	2,216
Interest expense	**184,928**	179,570	-	5,358	-	-	-
Net interest income	**691,359**	**643,583**	-	**45,560**	-	-	**2,216**
Net realized gains (losses) on investments	**220,031**	(1)	-	3,890	216,142	-	-
Revenue from Advisory Services	**13,902**	-	13,902	-	-	-	-
Fee and other income	**38,010**	11,480	-	15,981	8,361	734	1,454
Net revenue (loss)	**963,302**	**655,062**	**13,902**	**65,431**	**224,503**	**734**	**3,670**
Provision for expected credit losses	**(129,210)**	(129,210)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	**12,718**	732	-	(5,961)	(7,123)	20,471	4,599
Net foreign exchange gains (losses)	**(8,647)**	(2,432)	-	(106)	(6,227)	(47)	165
Net gains (losses) on other financial instruments	**148**	148	-	-	-	-	-
Income (loss) before operating and administrative expenses	**838,311**	**524,300**	**13,902**	**59,364**	**211,153**	**21,158**	**8,434**
Salaries and benefits	**218,835**	161,245	25,382	20,751	9,502	590	1,365
Premises and equipment	**21,989**	17,506	2,086	1,167	1,014	109	107
Other expenses	**79,771**	62,177	9,005	2,870	4,969	451	299
Operating and administrative expenses	**320,595**	**240,928**	**36,473**	**24,788**	**15,485**	**1,150**	**1,771**
Net income (loss)	**517,716**	**283,372**	**(22,571)**	**34,576**	**195,668**	**20,008**	**6,663**
Net income (loss) attributable to:							
BDC's shareholder	**511,409**	283,372	(22,571)	32,940	190,997	20,008	6,663
Non-controlling interests	**6,307**	-	-	1,636	4,671	-	-
Net income (loss)	**517,716**	**283,372**	**(22,571)**	**34,576**	**195,668**	**20,008**	**6,663**

(unaudited, in thousands of Canadian dollars)

Six months ended September 30, 2018

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice
Interest income	**772,362**	726,860	-	44,896	-	-	606
Interest expense	**121,852**	118,095	-	3,757	-	-	-
Net interest income	**650,510**	608,765	-	41,139	-	-	606
Net realized gains (losses) on investments	**30,617**	-	-	20,739	9,878	-	-
Revenue from Advisory Services	**12,025**	-	12,025	-	-	-	-
Fee and other income	**22,953**	10,435	21	10,766	1,594	132	5
Net revenue (loss)	**716,105**	619,200	12,046	72,644	11,472	132	611
Provision for expected credit losses	**(71,307)**	(71,307)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	**67,981**	13	-	(7,868)	38,596	37,240	-
Net foreign exchange gains (losses)	**(2,829)**	(4,843)	-	2	2,007	5	-
Net gains (losses) on other financial instruments	**544**	544	-	-	-	-	-
Income (loss) before operating and administrative expenses	**710,494**	543,607	12,046	64,778	52,075	37,377	611
Salaries and benefits	**200,023**	145,573	25,248	18,544	8,824	454	1,380
Premises and equipment	**21,610**	17,290	2,189	1,093	882	56	100
Other expenses	**54,219**	38,858	8,710	2,430	3,747	259	215
Operating and administrative expenses	**275,852**	201,721	36,147	22,067	13,453	769	1,695
Net income (loss)	**434,642**	341,886	(24,101)	42,711	38,622	36,608	(1,084)
Net income (loss) attributable to:							
BDC's shareholder	**433,652**	341,886	(24,101)	41,207	39,136	36,608	(1,084)
Non-controlling interests	**990**	-	-	1,504	(514)	-	-
Net income (loss)	**434,642**	341,886	(24,101)	42,711	38,622	36,608	(1,084)

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 $25.7 million as at September 30, 2019 ($38.6 million as at March 31, 2019) and the existing terms expire within 121 months (within 127 months as at March 31, 2019). However, the actual exposure as at September 30, 2019, was $25.0 million ($28.2 million as at March 31, 2019).

These financial guarantees were initially recognized at fair value on the date the guarantees were given. The fair value was considered nil, as all guarantees were agreed to on arm’s-length terms and no initial fees were received. In addition, no receivable for the future expected fees was recognized. Subsequent recognition of a liability will only occur when it becomes more likely than not that a client will not meet its contractual commitments. As at September 30, 2019 and March 31, 2019, there were no liabilities recognized in BDC’s Consolidated Statement of Financial Position related to these guarantees.

14.
Related party transactions

As at September 30, 2019 BDC had $19,927 million outstanding in short-term notes and $2,791 million in long-term notes with Her Majesty the Queen in Right of Canada acting through the Minister of Finance ($20,951 million in short-term notes and $1,307 million in long-term notes as at March 31, 2019).

BDC recorded $93.6 million in interest expense, related to the borrowings from the Minister of Finance, for the quarter and $187.8 million for the six-months ended September 30, 2019. Last year’s comparative figures for the same periods were $68.0 million and $126.4 million, respectively.

In addition, $310 million in borrowings with the Minister of Finance were repurchased in the first six months of fiscal 2020. This resulted in no gain or loss in the first six months of fiscal 2020 (no borrowings were repurchased during the same period last year).

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

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