2023 Annual Report

The bank
of ambitions

Table of Contents

Message from the Chairperson of the Board of Directors

Entrepreneurs faced a year like no other, fuelled by inflation, a tight labour market, increased prices, and the highest interest rate hike they had seen in 40 years.

I was pleased to see BDC doing what it does best: working proactively to support entrepreneurs across the country—and in underserved communities—in navigating their way through these tumultuous waters. BDC spearheaded a range of powerful initiatives designed to help entrepreneurs strengthen their businesses in the face of numerous challenges. It recognized the need for its clients to effectively interpret the quickly shifting signals of an unpredictable economic environment and responded by providing them with expert guidance and financing—so they could overcome obstacles and achieve their ambitions.

BDC had a record year in terms of impact on Canadian entrepreneurs, and now supports 100,000 entrepreneurs throughout Canada, directly and indirectly, an 80% increase compared to 2018 when I first joined the organization as Chair. It also had a successful year in terms of financial results.

A year of accomplishments

The Bank confirmed its ambitions to help entrepreneurs shift toward economic, social and environmental sustainability. These ambitions flow from its purpose and feature plans to boost capacity to provide the broader support required, including, notably, efforts to accompany all SMEs toward a more sustainable and equitable society.

The Bank continued its efforts to strengthen the competitiveness of the Canadian economy, through its role as the nation's largest venture capital investor. I was particularly proud of the launch of two significant initiatives in support of Canadian tech innovators and innovative businesses: the $400-million Climate Tech Fund II, which will enable the global scale-up and deployment of low-carbon technologies; and the launch of the $500-million Thrive Venture Fund and Lab for Women, which will continue to break down the barriers that keep Canadian women-led businesses from accessing the capital they need to transform their visions into reality.

My fellow board members and I also worked to ensure BDC kept its focus on other priority areas.

— The Bank continued to make progress on its commitment to sustainability. It launched its first sustainability framework, which outlines its actions and targets across its workforce, workplace, marketplace, and community, in line with the United Nations Sustainable Development Goals.

— Another key focus for the board was overseeing the advancement of BDC's management and disclosures of climate change-related opportunities and risks. Using the principles and guidelines of the Task Force on Climate-related Financial Disclosure, BDC has begun to explore how its clients in different regions are exposed to the physical risks of climate change; further refinements should permit future disclosures of these risks.

— To be in sync with entrepreneurs' ways of working and operating, the Bank continued to invest significantly in its digital transformation, including improving the speed and ease of access to its financing via its online financing offering.

— We also had the remarkable opportunity to appreciate the amplitude of BDC's work in support of Canadian entrepreneurs in the form of its 10-year Legislative Review. Every decade, the Bank is required to perform an exhaustive review exercise as part of the BDC Act. It provides BDC with an opportunity to reflect on what it has achieved and its path forward. The fruit of this reflection, which takes the form of the BDC Legislative Review Position Paper, was released this year, providing a view on the Bank's 2010-2022 performance, as well as what it is looking forward to in the next 10 years. I can tell you that we all have a lot to be proud of, and a lot to look forward to as well!

— Finally, BDC continued to put great focus on diversity, equity and inclusion (DEI), both internally and with its vendors and investee companies, determined to play a leadership role in that area. BDC has also closely monitored its post-pandemic workforce needs and evolved its practices to give employees enough flexibility to work in a hybrid work model.

Looking to the future with confidence

On behalf of the board, I would like to thank Isabelle Hudon, President and CEO, and the senior management team for leading a strong BDC and its 2,900 employees to support entrepreneurs in a complex environment. The board maintains its total confidence in the Bank's leadership and its strategy, which continues to enable BDC to deliver even greater impact to entrepreneurs and the Canadian economy.

I would also like to thank my fellow board members for their dedication, expertise, and strategic direction over the past fiscal year.

This will be my final year serving as Chairperson, a role I have cherished. I have witnessed a significant evolution at BDC, with its heightened ambition, renewed strategy, and great progress on risk management, digital transformation, and DEI. BDC makes a great impact on Canadian entrepreneurs, thanks to our highly engaged and talented colleagues across the country. I could not be prouder of the work we have accomplished together.

I am highly confident that BDC will achieve its ambition to do even more for Canada's business owners and the economy in the future. It has been a pleasure and an honour to serve as the Bank's Chair.

Mike Pedersen
Chairperson of the Board

Message from the President and CEO

In my second year as CEO, I was proud to see BDC once again mobilize to meet the moment, to support entrepreneurs through a new series of significant challenges.

At the beginning of the year, our clients showed impressive resilience, as did the Canadian economy. However, as the pace of the economy slowed in the second half of the year, business owners needed to adjust their focus to manage the effects of escalating interest rates, labour shortages, and higher commodity prices.

Despite this uncertainty, entrepreneurs continued to invest in new and postponed growth projects, fuelling incredible demand for our products and services. And I am proud to state that we once again delivered solid financial results and laid the groundwork to play a more impactful role for entrepreneurs across the nation.

Deepening our impact

In fiscal 2023, we articulated a renewed strategy with the intent to evolve our support to reach more entrepreneurs and have more impact on their success. We also put greater emphasis on our development role in building thriving businesses and an increasingly productive and inclusive economy.

We made considerable progress and launched a series of new initiatives aligned with the objectives at the heart of this renewed strategy. We focused on deepening the positive impact we have on our entrepreneurs in four key areas.

1. **Spur the growth of entrepreneurs and the competitiveness of Canada's economy**—As the largest venture capital investor in Canada, BDC has been a key catalyst of the industry's remarkable growth in recent years, in support of the country's most innovative businesses. Our investment arm, BDC Capital, with $5.7 billion in investments committed to clients, continued to put smart money to work to support the Canadian innovation ecosystem through its investment activities.

   Through these activities, we helped 700 Canadian innovators launch and grow technology-focused businesses and commercialize innovations. We also played a leading role in developing diversity, equity and inclusion best practices for the industry.

2. **Increase the reach and relevance of our support to entrepreneurs**—While we have increased our reach from 95,000 to 100,000 clients—including 16,500 through private sector partners—we recognize that access to financing remains a top issue for many. That is why we have doubled our efforts to be more present in underserved markets and to reach entrepreneurs who need us most.

   For example, we authorized $1.6 billion in loans for women-owned and -led companies this year, as part of our commitment to finance 19,000 women entrepreneurs by 2024. And we also launched our new $30-million financing envelope, aimed at giving medium-sized businesses in Canada's creative and cultural industries the boost they need. This program is aimed at rapidly growing sectors such as media and audiovisual, video game, and radio and television broadcasting.

   We followed up our Women in Technology (WIT) fund with the launch of the new $500-million Thrive Venture Fund and Lab to support Canadian women-led tech businesses. The Thrive platform—comprising a $300-million direct investment fund, a $100-million lab and a $100-million indirect investment envelope—provides a comprehensive approach to addressing barriers faced by women entrepreneurs.

3. **Empower entrepreneurs to respond to the big challenges of our time**—We doubled down on our commitment to fighting climate change with our $400-million Climate Tech Fund II, a new investment that will play a leadership role in creating world-class Canadian cleantech champions. This new envelope brings BDC's pledged investments in the innovative cleantech/climate tech sector to $1 billion.

   We also launched an environmental, social and governance (ESG) reporting template to help Canadian venture capital and mid-market private equity funds to track and report on key ESG metrics at the firm, fund, and portfolio company levels. We anticipate that it will drive momentum within the industry, as BDC Capital will expect all its portfolio general partners and their underlying portfolio companies to report their ESG metrics annually.

   This year, BDC will also publish its first Sustainability Report in the fall, which will enable the Bank to disclose our approach and performance on contributing to more inclusive, greener prosperity in Canada.

4. **Deliver a world-class employee and client experience**—We have worked diligently to improve our client experience. We conducted an extensive analysis of more than five years' worth of data and sifted through thousands of client comments to pinpoint the areas that require our focus to continually enhance the entrepreneurial experience.

   In addition, we have significantly improved our online financing process, streamlining it to ensure that entrepreneurs can quickly and easily apply for and obtain critical funding. Furthermore, as part of our ongoing digital transformation, we have invested in cutting-edge IT systems, process automation, and advanced data analytics to gain deeper insights into our clients' needs, enabling us to provide more personalized and effective solutions.

Delivering exceptional value

In total this fiscal year, we authorized $12.1 billion in financing and investments.

We also continued to provide essential, expert advice. Through our Advisory Services practice, we served entrepreneurs through 2,500 advisory mandates—our highest number since 2014—helping them make their businesses more innovative, more productive, more profitable and more competitive. This success was fuelled by our support for entrepreneurs who seized the opportunity to digitize their businesses as part of the Canadian Digital Adoption Program.

Our consolidated net income was $302.5 million.

Carving out a path to better support entrepreneurs

In today's unpredictable business environment, entrepreneurs are facing a challenging and uncertain future. That is why our role is more critical than ever. By providing the right support, we know that we can help them grow strategically, invest in productivity and remain competitive, both at home and abroad. We are laying the foundation for a more sustainable and inclusive economic future for Canada, one business at a time.

I would like to thank all our talented employees for their dedication and agility. You once again proved your commitment to Canada's entrepreneurs, by being there for them at every challenge and opportunity—and helping them turn their dreams into reality. I would also like to thank our outgoing Chairperson, Mike Pedersen, for his five years of unparalleled service. Mike has been an excellent Chairperson, with the ideal experience and knowledge to lead our board and guide us in the implementation of our renewed vision.

Our commitment to supporting entrepreneurs with financing and expert guidance remains steadfast, regardless of the ever-changing business landscape. We are dedicated to reaching as many business owners as possible and utilizing all the tools and resources at our disposal to foster their success. By leveraging our strong partnerships with key stakeholders, we can continue to set ourselves apart as Canada's development bank, ready to act decisively and make a positive impact in the lives of entrepreneurs.

I look forward to continuing to perform our development role, because that is what entrepreneurs expect, and more importantly *need*, from BDC—Canada's only bank fully committed to, and invested in, their success. This is one priority that will never change.

Isabelle Hudon
President and Chief Executive Officer

Management's Discussion and Analysis

1. Economic Environment

The global economy maintained its momentum in 2022, despite interest rate increases worldwide—part of an effort to contain the strongest inflation in decades. Annual global GDP growth reached 3.4%. Despite major headwinds, world trade volume grew by 3.2% in 2022.

The impact of the COVID-19 pandemic diminished in 2022 in advanced economies, except China. Supply chain disruptions due to the pandemic improved significantly and the situation is slowly returning to normal.

Commodity prices rose sharply following Russia's invasion of Ukraine, contributing to the global increase in inflation. The war continues and the geopolitical tensions are elevated, but commodity prices largely moderated over the course of the year.

The European economy suffered a serious setback following embargoes put in place against Russia's oil and gas. Energy was severely curtailed and fears that the continent was heading for a major energy crisis emerged in early fall. However, the Eurozone posted solid GDP growth of 3.5% for the full 2022.

In the United States, the economy remained on a solid footing with overall GDP growth of 2.1% during the year, even as the first two quarters posted negative GDP growth. Employment continued to increase at a robust pace, moving the unemployment rate down to 3.5%—the lowest level in more than 50 years—for most of the year. More than 10 million job openings, still-high turnover rates and increased average hourly wages were evidence of a tightening labour market. With more Americans working, households continued to spend despite high inflation, high interest rates and low consumer confidence. However, rising interest rates had a marked impact on residential investment.

Canada's economy proved resilient in 2022 in the face of the global challenges mentioned above. GDP growth stood at 3.4%, which was down from 5.0% in 2021 but still put the country among the top G7 performers. Demand for Canadian goods and services proved so strong that it exceeded economic capacity, which resulted in increased prices.

Inflation reached a 40-year record of 8.1% in mid-2022 and has remained above the Bank of Canada's 2% target since. In response to fast-rising prices, the Bank of Canada accelerated its fight against inflation as well, raising the policy rate from 0.25% in March 2022 to 4.5% in January 2023. The policy rate has remained at that level since.

Prices for most commodities, including oil, have moderated since the initial shock from the invasion of Ukraine. That moderation helped to bring inflation down at the beginning of 2023. However, prices were elevated throughout 2022, contributing to economic expansion across the country. The Canadian dollar depreciated from US$0.80 to US$0.74 between the beginning of the war and the end of the year as commodity prices moderated. Growing fears of a global recession also favoured the American dollar in the second half of the year. Overall, Canadian export volumes were up 2.6% in 2022.

The Canadian labour market improved considerably last year as well. Employment growth was robust with close to 400,000 jobs created during the year—due entirely to gains in full-time positions. The unemployment rate trended even lower than it had in the previous year and has been holding steady at a historic floor of 5.0%. The solid employment situation boded well for households' adjustment to steadily rising mortgage and credit card payments, as interest rates continued to rise. Canadian household spending also kept increasing in 2022. Consumption grew by 4.8% as services expenditures led growth following the full reopening of the economy. Higher costs for borrowing reduced spending on durable goods by 2.0%, however.

Residential investment is the first component of the economy to react to interest rate hikes. Since the Bank of Canada started its tightening cycle, home sales volumes have decreased by nearly 40%. The national average home price contracted by more than 17% during the 12 months that followed the first rate hike.

Business investment was strong for the first part of the year, but as borrowing costs increased and uncertainty rose, it started to decrease at the end of 2022. Accumulating headwinds started to worry more entrepreneurs, who are also turning more cautious. Businesses have been holding back or postponing investment projects as the economy has slowed.

In summary, the Bank of Canada strategy appears to be working. As Canadians' debt payments increased, households and businesses became more cautious during 2022, which slowed demand and eased price pressure. Inflation geared down to 4.3% in March 2023, even as economic activity continued to grow and job gains remained strong in the first quarter of 2023.[1]

(1) The Economic Environment section is based on the 2022 calendar year and the first quarter of 2023. However, the Annual Report follows the fiscal year, which covers the period from April 1, 2022, to March 31, 2023.

2. Expected Results and Performance Indicators

BDC's performance measures support its goal of helping Canadian entrepreneurs in their efforts to build strong, growing businesses. They are aligned with shareholder priorities and BDC's client impact strategic objectives.

Short term (1 year)

Objective	Performance indicator	Target fiscal 2023	**Result fiscal 2023**	Percentage achieved	Comment
Support more entrepreneurs	# of clients (direct)[1]	69,550	65,312	94%	BDC strives to provide SMEs with the financing and advice they need to reach their full potential. In the last year, entrepreneurs have faced a series of new challenges, including a slowing economy, rising interest rates, high inflation and labour shortages. In these uncertain economic conditions, BDC remained flexible and stood ready to support entrepreneurs facing these challenges. While demand for our products and services remained strong in fiscal 2023, the number of direct clients reached was slightly lower than the target, mainly due to slower uptake in Canada Digital Adoption Program (CDAP) loans in the early stages of the initiative as entrepreneurs focused on adjusting their operations to economic pressures. Uptake for these loans is demand driven and based on referrals from Innovation, Science and Economic Development Canada (ISED).
Work in partnerships to extend reach and provide support to entrepreneurs	# of indirect clients	12,500	35,404	283%	BDC reaches more entrepreneurs by working with other financial institutions and alternative lenders while also investing in VC funds. Our ongoing efforts to improve access to capital by collaborating with a growing number of organizations have helped increase the number of clients served through partnerships to levels significantly higher than the target set for fiscal 2023. The delivery of the COVID-19 Highly Affected Sectors Credit Availability Program has greatly contributed to this overachievement.
Provide asset-light financing	$ of acceptances for Growth & Transition Capital, online financing, intellectual property financing, and information and communications technology leveraged loans ($ in millions)	1,490	1,162	78%	BDC supports businesses that require financing even if they have little or no collateral. As knowledge and innovation increasingly drive the economy, businesses are investing more in software, intellectual property and other intangible assets, and asset-light financing is increasingly important. All types of financing included in this measure met or exceeded their individual targets, except for online loans, driven by slower uptake in CDAP online loans as discussed above. This explains why the Bank's overall result is below the target.
Support Indigenous entrepreneurs	# of direct clients identified as Indigenous	1,045	1,069	102%	BDC supports a growing number of Indigenous entrepreneurs as part of its commitment to reach a diverse array of business owners. Initiatives to further increase access to capital for Indigenous entrepreneurs—such as the Indigenous Growth Fund, in which BDC is an anchor investor, in partnership with the National Aboriginal Capital Corporations Association—allowed the Bank to exceed its target.
Make it easy for clients to do business with BDC	% of very satisfied clients[2]	67	65	97%	BDC aims to become an ever-more client-centric organization that provides a world-class client experience across all its delivery channels. This year's result, which is slightly lower than the objective, reflects the rise in interest rates to temper soaring inflation, as well as labour market tightness. BDC will continue to adapt to changes in the environment and entrepreneurs' needs to ensure we continue to deliver impactful services to Canadian entrepreneurs.
Provide advisory services to accelerate growth, innovation and productivity	Number of new Advisory Services mandates	1,650	2,491	151%	BDC offers expert advice to help entrepreneurs build strong and resilient businesses. In a year when SMEs were navigating a turbulent economic environment and facing complex challenges and opportunities, the need for advisory services continued to increase. CDAP also generated higher-than-anticipated demand for BDC's Advisory Services from entrepreneurs wanting to develop and implement digital adoption strategies prior to applying for CDAP loans. BDC demonstrated great agility and flexibility in meeting this increased demand, which helped us surpass the target.

Unless otherwise noted, all data are sourced from BDC's portfolio.

(1) Clients in more than one unit are only counted once.

(2) "Very satisfied" clients gave a score of 9 or 10 out of 10 for their overall satisfaction with BDC services. Source: BDC Client Voice Survey (excludes Venture Capital).

Medium term (3 years)

Objective	Performance indicator	Target (T) ending in fiscal	**Result fiscal 2023**	Comment
Support women entrepreneurs	# of direct clients identified as women-owned businesses (ownership of 50% and over)	T2024 19,000	17,505	BDC is committed to significantly increasing the number of women entrepreneurs we serve by fiscal 2024. To achieve this goal, BDC continues to rely on dedicated diversity ambassadors from all lines of business across the country, as well as to partner with many organizations that work with women entrepreneurs. We are currently on track to achieve our fiscal 2024 target.
Accelerate entrepreneurs' competitiveness	Results of BDC impact study[3]	T2025 BDC has a positive impact on revenue growth	N/A	BDC is committed to measuring the impact it has on the businesses it serves. The latest impact study, performed by Statistics Canada in fiscal 2022, showed that BDC clients achieved better results in terms of revenue, employment growth and survival rate than they would have if they had not turned to BDC. The next study results will be available in fiscal 2025.
Promote diversity, equity and inclusion in the workplace	% of BDC workforce compared to labour market availability (LMA) in the finance sector in each of the designated groups (women, Indigenous persons, visible minorities and persons with disabilities)[4]	T2025 BDC meets LMA	Women 49.5 Indigenous persons 1.1 Visible minorities 29.3 Persons with disabilities 3.7	BDC is committed to providing a fair, consistent and inclusive experience for all employees. We have been recognized over the years for our commitment to diversity, equality and inclusion (DEI) in our organization, but recognize we need to continue refining our DEI strategy and culture to create an increasingly diverse, equitable, inclusive and accessible BDC. To track the results of our efforts, we compare the percentage of BDC's workforce in each of the designated groups to the labour market availability (LMA) of these groups in the finance sector. The LMA stood at 46.3% for women, 1.9% for Indigenous persons, 24.9% for visible minorities and 8.2% for persons with disabilities, as at March 31, 2023. We are on track to achieve the fiscal 2025 target, with two of the four designated groups currently meeting or exceeding LMA.
Fulfill BDC's complementary role by serving underserved entrepreneurs	% of Financing portfolio that is sub-investment grade[5]	T2025 Maintain a minimum of 88	87	The proportion of sub-investment grade loans in the BDC Financing portfolio remains larger than those of our industry peers. The fiscal 2023 result is only marginally lower than the target and still confirms that BDC's activities complement those of other financial institutions.

Unless otherwise noted, all data are sourced from BDC's portfolio.

(3) Statistics Canada calculates this measure. It refers to the average percentage points of revenue growth of BDC clients that received both financing and advisory services above that of non-clients (a control group of similar businesses), after one year.

(4) Labour market availability represents the share of designated group members in the Canadian finance sector labour market.

(5) Sub-investment grade is rated BB+ or less.

Long term (5 years)

Objective	Performance indicator	Target (T) ending in fiscal	Result fiscal 2023	Comment
Support women-led tech firms	$ authorized to women in tech (VC) ($ in millions, cumulative to fiscal 2023)(6)	T2023 100	141.7	BDC had committed to investing $100 million through the Women in Technology Venture Fund by fiscal 2023. The fund sustained its momentum in the last fiscal year to surpass its fiscal 2023 target.
Increase the amount of capital available to Canada's promising cleantech firms	$ accepted, Cleantech Practice ($ in millions, cumulative fiscal 2018 to fiscal 2024)(7)	T2024 600	530	With global demand for cleantech growing strongly, the Cleantech Practice has built a strong network of partners and a promising pipeline of firms to support. It is on track to meet its fiscal 2024 target.
Provide financing and advisory services that enable clients to succeed	% of clients who reported a positive impact on their business following the services they received from BDC(8)	T2027 Maintain a minimum of 89	92	BDC continues to ensure clients receive the tailored support they need. The strong result on this objective demonstrates the impact the Bank's employees, financing products and tailored advisory solutions have had on Canadian SMEs.
Help restore the VC asset class to profitability to attract private s ector investors	BDC direct VC funds total value to paid-in capital (TVPI)(9)	T2027 1.80 or higher	1.78	BDC aims to have profitable VC operations in order to attract investors to this asset class. This year's TVPI result, which is slightly lower than the objective, reflects the headwinds the Canadian VC industry faced last year, following years of remarkable growth and profitability. However, BDC's long-term outlook for Canada's innovation ecosystem remains positive.

Unless otherwise noted, all data are sourced from BDC's portfolio.

(6) Includes both direct and indirect investments authorized by the Women in Technology Venture Fund.

(7) Includes Financing, Growth & Transition Capital and Venture Capital. Due to the pandemic, we now anticipate reaching the target in fiscal 2024, two years later than planned.

(8) Source: BDC Client Voice Survey (excludes Venture Capital).

(9) TVPI, a standard VC industry metric, is the ratio of the current value of investments and proceeds to date to the original amount invested in the Venture Capital segment.

3. Analysis of Financial Results

Lines of business

The Business Development Bank of Canada (BDC) is the bank for Canadian entrepreneurs. Our purpose is to help Canadian entrepreneurs succeed. We do that by providing financing, capital and advisory services.

BDC reports on six business lines: Financing, Advisory Services, Growth & Transition Capital (GTC), Venture Capital (VC), Capital Incentive Programs (CIP) and the Credit Availability Program (CAP).

Our mission

BDC supports Canadian entrepreneurs in their efforts to build strong, growing businesses and, in doing so, contribute to creating a more competitive, prosperous and inclusive Canada.

A critical part of our mission as a development bank is to ensure viable small and medium-sized enterprises (SMEs) have access to the capital and expert business advice they need in difficult times. In the new post-pandemic era, Canadian entrepreneurs have been confronted with a series of new challenges, including a slowing economy, rising interest rates, high inflation and labour shortages. What's more, business owners are also being called upon to do their part to help combat climate change and create a more just and inclusive society. These new challenges have been added to the long-standing need for companies to scale up and increase their productivity and innovation to compete more effectively in Canada and abroad. As we face uncertain economic conditions, BDC remains flexible and stands ready to adapt to changes in the environment and entrepreneurs' needs to ensure we continue to deliver high-quality and impactful services to Canadian entrepreneurs.

At BDC, diversity and inclusion are part of our business strategy to provide greater access to financing and advice to underserved and diverse groups of entrepreneurs, including women, Indigenous, Black, LGBTQ+, and other minorities. To focus our efforts, BDC has developed an integrated client diversity strategy that relies on more than 200 employees who have stepped forward to act as diversity ambassadors. This strategy ensures all business owners can thrive in the Canadian entrepreneurial ecosystem, and empowers every employee to have a diverse and inclusive mindset in helping our clients excel.

Activities

Core results are driven by the activities of the Financing, Advisory Services, GTC, VC and CIP business lines, whereas those of the CAP segment stem from all of BDC's COVID-19 relief measures and the Canada Digital Adoption Program (CDAP).

The COVID-19 relief measures, which ended in fiscal 2022, included the Business Credit Availability Program (BCAP) and the Highly Affected Sectors Credit Availability Program (HASCAP), delivered in collaboration with Canadian banks and credit unions, as well as measures delivered directly by BDC. As small businesses adapted to the lasting impacts of the COVID-19 pandemic, our shareholder launched CDAP with our support in fiscal 2022 to help small businesses grow their online presence and adopt digital technologies. All of these measures have been grouped together under CAP to distinguish them from BDC's core activities.

While BDC's growth in activity level was strong in fiscal 2023, it started to slow down in the second half, as entrepreneurs were more cautious and reduced their investment intentions in the context of an uncertain economic environment. Overall, BDC's clients accepted $10.3 billion in loans and $498.8 million in debt investments and BDC authorized $338.6 million in direct equity investments and $536.1 million in indirect equity investments in funds. In fiscal 2022, BDC's client accepted $9.8 billion in loans and $530.4 million in debt investments and BDC authorized $435.3 million in direct equity investments and $175.5 million in indirect equity investments in funds.

Core activities

BDC Financing helps improve the competitiveness of SMEs by providing term lending and collaborating with other financial institutions to increase credit availability in the market through syndicated loans and indirect financing. In the first half of fiscal 2023, credit demand from entrepreneurs was solid with many businesses focused on growth as the economy recovered from the pandemic. In the second half of fiscal 2023, demand decreased as SMEs became concerned about rising interest rates and economic uncertainty. Clients of Financing accepted a total of $10.3 billion in loans in fiscal 2023, an increase of 8.9% compared to $9.4 billion in fiscal 2022.

BDC strives to reach more entrepreneurs and have a greater impact on their businesses. This is especially true for underserved and diverse entrepreneurs, such as women in business, Canada's Indigenous people and Black entrepreneurs.

To help women succeed, BDC has made it a priority to support them at every stage of their business journey from accessing capital to finding networks, mentors and resources. BDC has partnered with a number of organizations to provide mentoring, training and peer-to peer learning opportunities. We are committed to grow the number of women entrepreneurs we serve to 19,000 by fiscal 2024. In fiscal 2023, we authorized $1.6 billion in loans and the number of women entrepreneurs we finance reached 17,505 up from $1.5 billion in loans to 16,441 women in fiscal 2022.

BDC has a long history of supporting Indigenous entrepreneurs. To improve access to capital, we offer flexible and preferred terms through the Indigenous Entrepreneur Loan. We also maintain several partnerships in support of Indigenous entrepreneurs. During fiscal 2023, BDC committed $587.7 million to 1,069 Indigenous clients across Canada, surpassing its target of serving 1,045 indigenous businesses this fiscal.

BDC is committed to help Black entrepreneurs overcome barriers and seize opportunities to build strong, growing businesses by partnering with several organizations. In fiscal 2022, we extended our commitment through the Black Entrepreneurship Loan Fund by investing $130 million in partnership with the Government of Canada, the Federation of African Canadian Economics (FACE), Black-led business organizations and private sector financial institutions. As at March 31, 2023, BDC had committed $14.4 million in loans to 100 clients since inception of this program.

An essential condition for achieving the goals of our strategy is to provide a world-class client experience. To do so, we are enhancing our online financing process with the goal of making it faster and easier for entrepreneurs. We are also considering increasing the maximum loan amount processed online from the current $100,000. As part of our digital evolution, we continue to make investments in IT systems, process automation and advanced data analytics to deepen our knowledge of our clients so we can meet their needs faster and with more insight. In fiscal 2023, Financing clients accepted $457.7 million in loans through our online financing process.

BDC Advisory Services provides entrepreneurs with high-value advisory services in the form of a variety of solutions for small, medium and larger companies, as well as free online educational content and a program targeting high-growth firms. Advisory services continued to extend its client reach with the new services offered this fiscal year to support entrepreneurs in their digital adoption plan under CDAP for which BDC is one of the approved partners. The number of mandates sold significantly increased by 77% from 1,406 mandates last fiscal to 2,491 as of March 31, 2023. Net contracts signed amounted to $41.5 million compared to $29.9 million recorded last year.

GTC provides cash flow, mezzanine, quasi-equity and equity financing to support the growth, transition and acquisition projects of SMEs with strong business models and management teams but limited tangible assets as collateral. We also respond to an increasing need for business transitions to new ownership as more baby-boomer entrepreneurs head into retirement. We accomplish this by providing financing and advice to entrepreneurs on managing the crucial integration phase following a merger or acquisition. We sponsor educational events on key transition success factors and focus on building strategic partnerships in support of successful transitions.

Clients of GTC accepted $468.0 million in debt investments for fiscal 2023, compared to $503.3 million for fiscal 2022. Acceptances decreased in the second half of fiscal 2023 mainly explained by the slow-down in demand for GTC's offering due to economic uncertainties which negatively impact mergers and acquisitions as well as business transition transactions.

In February 2023, BDC launched a new $30 million financing envelope to deepen its support for Canada's creative and cultural economy with financing starting at $2 million in support of rapidly growing medium-sized businesses in the creative and cultural industries in a variety of sectors, such as, media and audiovisual, video games, motion pictures and sound production, sound recording and radio and television broadcasting. The new financing will be used mainly to support business consolidation, transition to new ownership and the development of original content.

Venture Capital includes activities in growth equity, intellectual property financing and venture capital, which invests directly in companies in multiple sectors and indirectly through external funds. As the most active venture capital investor in Canada, BDC has been a key participant in the industry's remarkable growth in recent years, supporting the country's most innovative businesses. During fiscal 2023, BDC continued to strengthen the innovation ecosystem with its venture capital activities. These activities helped Canadian innovators launch and grow technology-focused businesses and commercialize innovations. In fiscal 2023, VC authorized investments totalling $526.6 million (including $27.4 million in debt investments, $313.1 million in direct equity investments and $186.1 million in indirect equity investments in funds) compared to $495.9 million last year (including $25.1 million in debt investments, $295.3 million in direct equity investments and $175.5 million in indirect equity investments in funds).

VC plays a leading role in setting diversity and inclusion best practices for the industry. In fiscal 2018, it committed $200 million to the first Women in Technology Venture Fund (WIT) to provide better access to capital to women-led technology companies. In fiscal 2023, our WIT fund reached a total commitment of $130.7 million, surpassing our fiscal 2023 target of $100 million of authorizations by the end of the fiscal year. Given its aim to promote the development of the ecosystem for women in tech and investment roles, the fund continued to support emerging managers with a female General Partner and a focus on fostering women-led firms.

In September 2022, BDC launched the $500 million Thrive Venture Fund and Lab for Women to support Canadian women-led businesses. The Thrive platform comprises three distinct components: a $300 million direct investment fund, the $100 million lab and a $100 million indirect investment envelope, providing a comprehensive approach to addressing barriers faced by women, be it through direct early-stage investment, strategic investment in women-led and focused funds, or emerging models for providing equity investments for women-led businesses in the earliest stages of development, all while continuing to develop a more robust and sustainable ecosystem for all. As at March 31, 2023, $31.8 million of authorizations were reached through this program.

VC continues to extend its reach to Black entrepreneurs through the Black Innovation Fund, co-created with the BKR Capital organization and serves as the fund's anchor investor with a $4.0 million commitment, creating the first venture capital fund focused on Black-founded tech companies in Canada. Of the $4.0 million committed to the Black Innovation Fund, $1.2 million was deployed as at March 31, 2023.

In November 2022, BDC launched the new $400 million Climate Tech Fund II, a renewed commitment to play a leadership role in creating world-class Canadian cleantech champions. The fund will enable the scale up and deployment of low-carbon technologies to help Canada meet its GHG emissions reduction target. As at March 31, 2023, authorizations in the new Climate Tech Fund II reached $26.5 million.

VC indirectly supports more than 500 Canadian companies through investments in 125 funds. We support and mentor emerging fund managers as they scale their funds and back fund managers working in emerging and existing areas of strategic importance to Canada.

On behalf of the Government of Canada, BDC continued to manage Capital Incentive Programs, which include $390 million for Venture Capital Action Plan (VCAP) to support promising Canadian start-ups, $372 million for Venture Capital Catalyst Initiative (VCCI) to increase the availability of late-stage VC and support underserved groups, $600 million for the Cleantech Practice and $100 million for the Indigenous Growth Fund (IGF) in partnership with the National Aboriginal Capital Corporations Association (NACCA).

VCAP and VCCI are now fully committed. VCCI was renewed in fiscal 2023 to deploy $450 million under the Venture Capital Catalyst Initiative II (VCCI II), to support private sector funds of funds and funds focused on investments in life science technologies and entrepreneurs from underrepresented groups. VCCI II recorded authorizations of $350.0 million as at March 31, 2023.

The Cleantech Practice has now invested most of the $600 million in additional capital extended to BDC by the federal government to help build globally competitive Canadian cleantech firms and a long-term, commercially sustainable cleantech industry that can attract significant private capital investment. In fiscal 2023, a further $23.4 million was committed to Cleantech Practice bringing the total net commitment since inception to $530.0 million, with the balance reserved for follow-on investments in its most promising high growth portfolio companies. The new $400 million Climate Tech Fund II envelope in VC and the $600 million envelope in Cleantech Practice brings BDC's committed investments in the innovative cleantech/climate tech sector to $1 billion.

BDC initiated IGF in fiscal 2021 in partnership with the National Aboriginal Capital Corporations Association (NACCA). With a capital injection of $50 million from the Government of Canada, BDC will provide $100 million to Aboriginal Financial Institutions for the purpose of offering loans to new and expanding Indigenous businesses. Of the $100 million committed to IGF, $22.5 million was disbursed as at March 31, 2023.

Credit Availability Program (CAP) activities

CAP activities include all of our COVID-19 measures, delivered directly by us or in collaboration with the private sector, and CDAP which was launched at the end of fiscal 2022 to accelerate SMEs' adoption of digital technologies. All COVID-19 initiatives ended in fiscal 2022. Please refer to the Management's Discussion and Analysis section of the fiscal 2022 Annual Report on page 22 for more information on CAP initiatives.

CDAP acceptances amounted to $63.8 million in fiscal 2023. To receive BDC financing under the program, entrepreneurs must finalize a digital plan, receive approval from Innovation, Science and Economic Development Canada (ISED) as well as a referral to BDC. We expect acceptances to increase in fiscal 2024.

The HASCAP guarantee acceptances amounted to $3.7 billion since the inception of the program. The actual exposure under the HASCAP guarantees totalled $3.3 billion as at March 31, 2023 ($3.5 billion as at March 31, 2022). CAP's loan portfolio, net of allowance for expected credit losses, stood at $1.9 billion as at March 31, 2023 and $2.8 billion as at March 31, 2022.

Financial results overview

For the analysis of financial results, please also refer to Note 20—*Segmented Information* to the Consolidated Financial Statements.

BDC's financial performance for fiscal 2023 was negatively impacted by the slowdown in the economy due to high inflation, rising interest rates, and declines in public market investment valuations. As a result of the economic uncertainties, a higher provision for expected credit losses was recorded on the loans portfolio while the investments portfolio showed a higher unrealized fair value depreciation. Although these factors contributed to a decrease in results, BDC's financial performance and capital level remain strong and BDC is well positioned to invest to enhance our support to entrepreneurs and drive future growth in the Canadian economy.

Consolidated net income

For fiscal 2023, BDC generated consolidated net income of $302.5 million. The decrease of $2.2 billion compared to net income of $2.5 billion reported in fiscal 2022 was largely due to higher provision for expected credit losses, lower net realized gains on investments and higher net change in unrealized depreciation on the investments portfolio. Net income attributable to BDC's shareholder amounted to $380.7 million, while a net loss of $78.2 million was attributable to non-controlling interests related to Growth & Transition Capital and Venture Capital operations.

With BDC's profitability surpassing the required capital to support portfolio growth, $1.0 billion of capital was generated above the internal target rate from our core activities. On the date of approval of the fiscal 2023 Consolidated Financial Statements, a $337.0 million dividend was declared based on fiscal 2023 performance. Capital generated above the internal target rate amounted to $2.4 billion for CAP. In fiscal 2023, BDC repurchased 50.0 million of its commons shares from its shareholder for a cash payment of $5.0 billion to reduce the capital generated above the internal target rate in CAP related to COVID-19 initiatives.

Core net income

Net income from Financing was $852.1 million, a decrease of $310.1 million from last year. The decrease was mainly explained by higher provision for expected credit losses on the impaired portfolio and lower reversal of provision for expected credit losses on the performing portfolio. In fiscal 2022, BDC recorded a significant reversal of provision on the performing portfolio as the economy was recovering from the COVID-19 pandemic and macro-economic forecasts were improving considerably compared to the previous year. Fiscal 2023's lower reversal of provision reflects a more modest improvement in macro-economic forecasts because of remaining risks of a recession due to the elevated inflation, high interest rates and lower business investment.

Advisory Services reported a net loss of $37.0 million, lower than the net loss of $39.0 million recorded last year. Revenue for fiscal 2023 reached $38.2 million, a significant increase compared to $28.9 million last year, mainly explained by the increase in advisory mandates delivered in support of CDAP. Delivery expenses amounted to $19.7 million compared to $15.5 million last year.

Growth & Transition Capital recorded net income of $49.9 million for fiscal 2023, compared to a net income of $152.3 million last year. The unfavourable results were mainly due to higher net fair value depreciation and lower net revenue on investments reflecting challenges faced by entrepreneurs due to supply chain issues, lower market demand and increased pressure due to high inflation and rising interest rates.

Venture Capital recorded a net loss of $637.9 million for fiscal 2023, compared to net income of $988.0 million recorded last year. VC's results are affected by high volatility in the fair value of our investments, due to the riskier nature of venture capital. Our portfolio was impacted by higher macro-economic uncertainty in fiscal 2023. Declines in the public investments market, especially the technology sector, tighter investments activity, and reduced growth expectations from our investee companies are all factors contributing to lower net fair value valuations.

CIP recorded net income of $17.9 million, compared to net income of $303.8 million last year. The lower results compared to last fiscal were mainly explained by lower net revenue on investments and lower net change in unrealized appreciation of investments, due to market headwinds.

Net loss attributable to non-controlling interests was $78.2 million in fiscal 2023 ($16.0 million in net loss from GTC and $62.2 million in net loss from VC), compared to net income of $74.7 million in fiscal 2022 ($15.9 million in net income from GTC and $58.8 million in net income from VC). The net loss attributable to non-controlling interest for fiscal 2023 was mainly due to higher net fair value depreciation of investments.

Consolidated net income (loss)—by business segment

for the years ended March 31 ($ in millions)

	2023	2022	2021	2020	2019
Financing	**852.1**	1,162.2	733.1	32.1	621.3
Advisory Services	**(37.0)**	(39.0)	(39.4)	(46.8)	(49.8)
Growth & Transition Capital	**49.9**	152.3	114.8	(32.9)	73.4
Venture Capital	**(637.9)**	988.0	902.5	(86.9)	194.2
Capital Incentive Programs	**17.9**	303.8	254.4	(83.5)	46.5
Core net income (loss)	**245.0**	2,567.3	1,965.4	(218.0)	885.6
Credit Availability Program	**57.5**	(52.6)	(315.5)	–	–
Net income (loss)	**302.5**	2,514.7	1,649.9	(218.0)	885.6
Net income (loss) attributable to:					
BDC's shareholder	**380.7**	2,440.0	1,647.7	(193.0)	878.5
Non-controlling interests	**(78.2)**	74.7	2.2	(25.0)	7.1
Net income (loss)	**302.5**	2,514.7	1,649.9	(218.0)	885.6

CAP net income

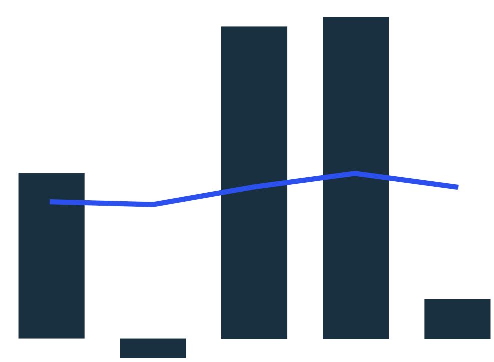
CAP recorded net income of $57.5 million, compared to a net loss of $52.6 million recorded last year. The improved results are mainly attributable to higher net interest income due to intersegment interests on CAP's cash balances transferred to the core segment. This was offset by higher provision for expected credit losses driven by HASCAP's portfolio and higher net realized losses on investments.

Adjusted return on common equity

BDC's adjusted return on common equity (ROE) was 2.9% in fiscal 2023, lower than the 10-year moving average of 11.2%, as a result of lower net income in fiscal 2023.

Adjusted return on common equity (ROE)

as at March 31



	2019	2020	2021	2022	**2023**
Adjusted ROE[1]	12.1%	(1.4%)	22.9%	23.6%	**2.9%**
Adjusted ROE—10-year moving average	10.1%	9.9%	11.2%	12.2%	**11.2%**

(1) ROE is calculated based on equity attributable to BDC's shareholder (see the glossary on page 129 for a detailed definition).

Consolidated comprehensive income (loss)
for the years ended March 31 ($ in millions)

	2023	2022	2021	2020	2019
Net income (loss)	**302.5**	2,514.7	1,649.9	(218.0)	885.6
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	**(12.2)**	(28.8)	6.1	2.5	7.0
Net change in unrealized gains (losses) on cash flow hedges	**(1.5)**	(0.7)	(1.3)	(1.1)	1.3
Total items that may be reclassified subsequently to net income	**(13.7)**	(29.5)	4.8	1.4	8.3
Items that will not be reclassified to net income					
Remeasurements of net defined benefit asset or liability	**24.6**	289.5	(43.1)	91.6	(76.2)
Other comprehensive income (loss)	**10.9**	260.0	(38.3)	93.0	(67.9)
Total comprehensive income (loss)	**313.4**	2,774.7	1,611.6	(125.0)	817.7
Total comprehensive income (loss) attributable to:					
BDC's shareholder	**391.6**	2,700.0	1,609.4	(100.0)	810.6
Non-controlling interests	**(78.2)**	74.7	2.2	(25.0)	7.1
Total comprehensive income (loss)	**313.4**	2,774.7	1,611.6	(125.0)	817.7

Consolidated comprehensive income

BDC reported consolidated comprehensive income of $313.4 million for fiscal 2023, compared to consolidated comprehensive income of $2.8 billion last year. Fiscal 2023 consolidated comprehensive income comprised $302.5 million in consolidated net income and $10.9 million in other comprehensive income. The other comprehensive income for the year was mostly due to the remeasurement gain on the net defined benefit asset or liability of $24.6 million, compared to a gain of $289.5 million in fiscal 2022. The fiscal 2023 gain resulted from higher discount rates used to value the net defined benefit liability offset by a lower return on assets. For further details, refer to Note 15 —*Net Defined Benefit Asset or Liability* to the Consolidated Financial Statements.

Performance against objectives

The consolidated net income of $302.5 million was lower than the consolidated net income of $493.6 million established in the corporate plan.

Core performance against objectives

Financing's net income of $852.1 million was higher by $174.9 million compared to corporate plan, primarily due to a lower-than-expected provision for expected credit losses on impaired loans offset by a lower-than-expected reversal of provision for expected credit losses on performing loans and lower operating and administrative expenses.

Advisory Services' net loss of $37.0 million was $5.3 million lower than expected as a result of higher revenue driven by a significant increase in advisory mandates delivered mainly for CDAP, offset by higher-than-anticipated delivery expenses.

Growth & Transition Capital recorded net income of $49.9 million, a $13.8 million decrease compared to the corporate plan objective. The negative variance was mainly driven by higher-than-expected net change in unrealized depreciation of investments due to higher net fair value depreciation of investments.

Venture Capital's net loss of $637.9 million was significantly higher than anticipated compared to the corporate plan's expected net income of $148.7 million. The negative variance was mainly due to lower net realized gains from sales and higher net change in unrealized depreciation of investments due to higher net fair value depreciation on investments. This was offset by higher net foreign exchange gains, lower operating and administrative expenses and lower write-offs.

Capital Incentive Programs' net income of $17.9 million was $6.1 million lower than anticipated, mainly due to higher than anticipated net fair value depreciation on investments. This was offset by a higher-than-anticipated net revenue on investments and higher net foreign exchange gains.

CAP performance against objectives

CAP's net income of $57.5 million was higher than the net loss of $377.7 million projected in the corporate plan, primarily due to lower provision for expected credit losses on impaired loans, offset by lower-than-expected reversal of provision for expected credit losses on performing loans. The increase is also due to higher net interest, fee and other income and lower net losses on other financial instruments.

Financing

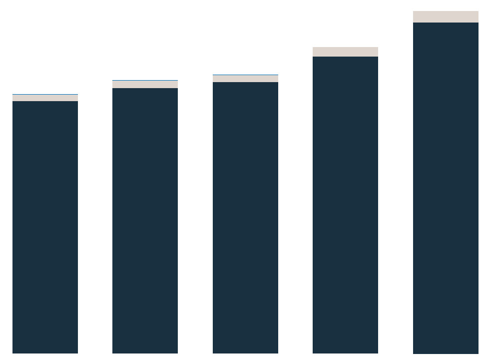
Financing provides term lending to SMEs at each stage of their business journey and helps them improve their competitiveness. BDC also works closely with other financial institutions to increase credit availability in the market through syndicated loans and indirect financing.

BDC continued to invest in IT systems, process automation and data analytics to evolve its digital lending platform, better anticipate entrepreneur needs and provide them with more insightful advice.

Financing portfolio

The financing portfolio comprises loans, asset-backed securities (ABS) and debt investments, totalling $35.2 billion, net of the allowance for expected credit losses of $935.4 million.

Financing portfolio
as at March 31 ($ in millions)

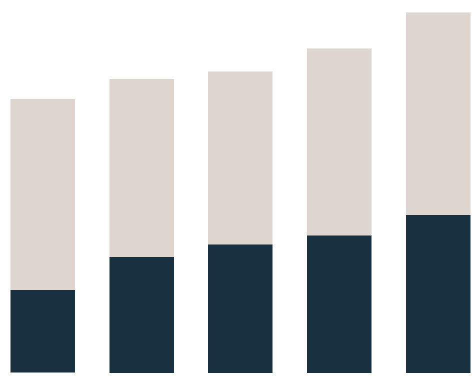


	2019	2020	2021	2022	**2023**
Loan portfolio(1)	25,916.2	27,273.1	27,876.9	30,499.3	**34,020.4**
Asset-backed securities portfolio	700.3	778.0	733.0	988.0	**1,176.0**
Debt investments	12.1	12.0	17.0	11.0	**11.0**
Total Financing portfolio	26,628.6	28,063.1	28,626.9	31,498.3	**35,207.4**

(1) Net of allowance for expected credit losses of $935.4 million in fiscal 2023.

Financing's loan portfolio, before allowance for expected credit losses, increased by 11.1% from $31.5 billion a year ago to $35.0 billion as at March 31, 2023, compared to 7.7% as at March 31, 2022. The growth of the loan portfolio is higher in fiscal 2023 mainly as a result of an increase in volume of loan disbursements driven by a strong credit demand. The closing loan portfolio comprised $34.1 billion in performing loans and $0.9 billion in impaired loans. As at March 31, 2023, 56.2% of the loan portfolio was composed of floating-rate loans, below the fiscal 2022 level of 57.6%.

Financing loan portfolio
as at March 31 ($ in millions)



	2019	2020	2021	2022	**2023**
Fixed-rate loan portfolio	8,002.0	11,234.2	12,438.0	13,321.0	**15,311.4**
Floating-rate loan portfolio	18,543.5	17,238.0	16,754.6	18,131.3	**19,644.4**
Total loan portfolio	26,545.5	28,472.2	29,192.6	31,452.3	**34,955.8**

Financing results

Financing recorded net income of $852.1 million for the year, compared to net income of $1.2 billion in fiscal 2022. The unfavourable variance with last year was mainly driven by a provision for expected credit losses of $85.9 million recorded this fiscal year, compared to a reversal of provision for expected credit losses of $267.7 million recorded last fiscal.

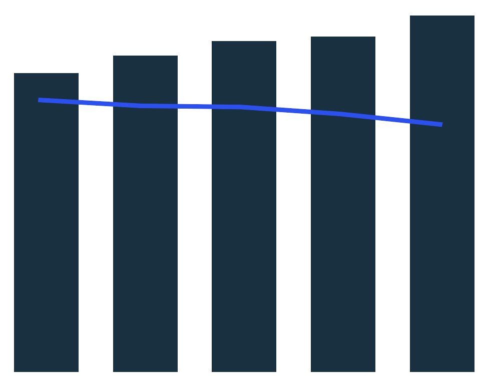
Net interest income

Net interest income reflects interest income less interest expense on borrowings. Net interest income reached $1,466.4 million in fiscal 2023, compared to $1,378.9 million in fiscal 2022. The increase of $87.5 million was primarily the result of growth in the portfolio. The net interest income margin, which is the ratio of net interest income to the average loan portfolio, decreased from 4.44% in fiscal 2022 to 4.26% in fiscal 2023, reflecting pressures on pricing due to the current high interest rate environment and lower revenue recognized from impaired loans upgraded to performing.

Financing results
for the years ended March 31 ($ in millions)

	2023	2022
Net interest income	**1,466.4**	1,378.9
Fee and other income	**27.2**	24.3
Provision for expected credit losses	**(85.9)**	267.7
Net change in unrealized appreciation (depreciation) of investments	**1.9**	(6.2)
Net realized gains (losses) on investments	**(0.6)**	(0.6)
Net gains (losses) on other financial instruments	**14.3**	0.7
Net foreign exchange gains (losses)	**14.8**	(0.5)
Income before operating and administrative expenses	**1,438.1**	1,664.3
Operating and administrative expenses	**586.0**	502.1
Net income from Financing	**852.1**	1,162.2

Financing net interest income
for the years ended March 31 ($ in millions)



	2019	2020	2021	2022	**2023**
Net interest income	1,229.4	1,300.6	1,360.1	1,378.9	**1,466.4**
As a % of average Financing portfolio	4.68%	4.58%	4.56%	4.44%	**4.26%**

Financing results
for the years ended March 31 (as % of average portfolio)

	2023	2022
Net interest income	**4.3%**	4.4%
Fee and other income	**0.1%**	0.1%
Provision for expected credit losses	**(0.2%)**	0.9%
Income before operating and administrative expenses	**4.2%**	5.4%
Operating and administrative expenses	**1.7%**	1.6%
Net income from Financing	**2.5%**	3.8%

Provision for expected credit losses

The provision for expected credit losses (ECL) is the amount charged to income to maintain the total allowance at a level considered adequate to absorb the credit losses expected in the portfolio at the statement of financial position date. The ECL model calculates a probability-weighted estimate that incorporates forward-looking information representing three macroeconomic scenarios.

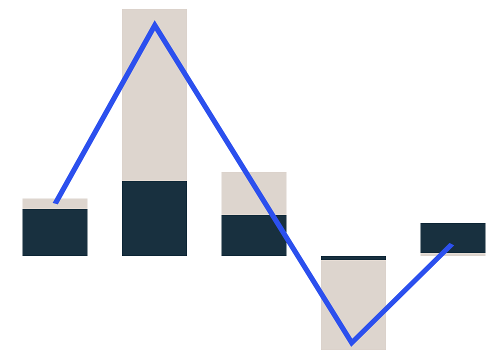
In fiscal 2023, Financing recorded a provision for expected credit losses of $85.9 million compared to a reversal of provision for expected credit losses of $267.7 million last fiscal. The reversal of provision for expected credit losses on performing loans was $8.3 million, compared to a reversal of $280.2 million in fiscal 2022 representing an unfavourable variance of $271.9 million. In fiscal 2022, BDC recorded a significant reversal of provision on the performing portfolio of $280.2 million as the economy was recovering from the COVID-19 pandemic and macro-economic forecasts were improving considerably compared to the previous year. Fiscal 2023's reversal of $8.3 million reflects a more modest improvement in macro-economic forecasts as there remains risks of a recession due to the elevated inflation, high interest rates and lower business investment.

The provision for expected credit losses on impaired loans was $94.2 million compared to $12.5 million in fiscal 2022. A significant factor influencing the allowance on impaired loans is the volume of loans that were downgraded from performing to impaired status. When financial conditions deteriorate, more loans go into default. We then classify them as impaired and record an amount equal to the net exposure in the allowance for expected credit losses on impaired loans. The percentage of these downgrades decreased to 1.7% of the opening performing portfolio in fiscal 2023, compared to 2.0% for fiscal 2022, whereas the provision for expected credit losses on impaired loans increased to 0.27% of the average portfolio compared to 0.04% for fiscal 2022. The ECL on the impaired portfolio remains below pre-pandemic level indicating that entrepreneurs are resilient and well positioned despite the economic slowdown. They are more cautious and are choosing to decrease their investments and spending as a consequence of interest rates hikes.

BDC closely manages the $0.9 billion in impaired loans, which represented 2.5% of the total portfolio on March 31, 2023, lower than the 3.2% on March 31, 2022.

Provision for expected credit losses on loans

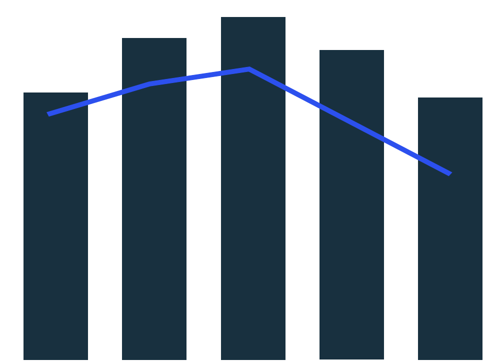
for the years ended March 31 ($ in millions)



	2019	2020	2021	2022	**2023**
Impaired	146.2	233.9	128.2	12.5	**94.2**
Performing	33.7	538.6	133.8	(280.2)	**(8.3)**
Provision for expected credit losses on loans	179.9	772.5	262.0	(267.7)	**85.9**
As a % of average loan portfolio	0.7%	2.7%	0.9%	(0.9%)	**0.2%**

Impaired portfolio

as at March 31 ($ in millions)

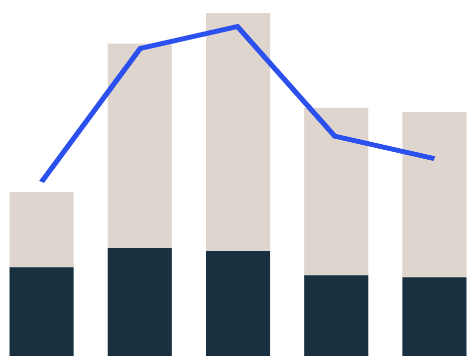


	2019	2020	2021	2022	**2023**
Impaired portfolio	882.8	1,061.6	1,130.6	1,021.5	**864.9**
Impaired portfolio as a % of total loan portfolio	3.3%	3.7%	3.9%	3.2%	**2.5%**

The total allowance for expected credit losses decreased to $935.4 million on March 31, 2023, compared to $953.0 million in fiscal 2022. The total allowance represented 2.7% of the total loans outstanding, lower than the 3.0% recorded last year as a result of a $9.5 million decrease in the allowance on the performing portfolio and a $8.1 million decrease in the allowance on the credit impaired portfolio.

For more information about credit risk management, please refer to Note 18—*Risk Management* to the Consolidated Financial Statements.

Allowance for expected credit losses
as at March 31 ($ in millions)



	2019	2020	2021	2022	**2023**
Impaired	338.7	414.7	403.3	308.7	**300.6**
Performing	290.5	784.5	912.3	644.3	**634.8**
Total allowance	629.2	1,199.2	1,315.6	953.0	**935.4**
Total allowance as a % of loan portfolio	2.4%	4.2%	4.5%	3.0%	**2.7%**

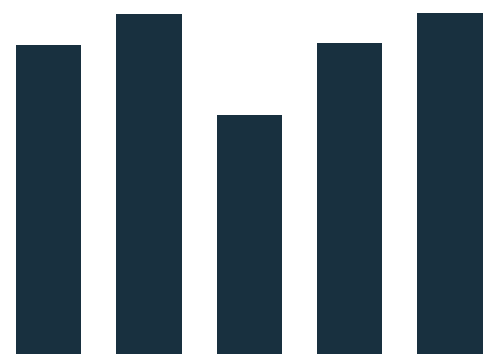
Operating and administrative expenses

Operating and administrative expenses were $586.0 million in fiscal 2023, higher than the $502.1 million recorded last year. As a percentage of the average portfolio, operating and administrative expenses were 1.7%, compared to the 1.6% recorded in fiscal 2022. The increase is mainly due to higher salaries and benefits due to additional resources to support the growth of our portfolio and higher professional fees and technology expenses to support our innovation and digital transformation projects.

Operational efficiency

Over the years, BDC has made a concerted effort to achieve efficiencies while fulfilling its role as a development bank and implementing government priorities. BDC carefully manages operating expenses, by identifying and gaining efficiencies, and by improving its efficiency ratio, that is, the expenses incurred to earn each dollar of revenue. A lower ratio indicates improved efficiency. The Financing efficiency ratio increased to 39.2% in 2023 from 35.8% in 2022. The increase is primarily explained by an increase in operating and administrative expenses driven by our investments in innovation and digital transformation projects. In fiscal 2021, the efficiency ratio was significantly lower which was primarily explained by higher recharges to the CAP segment to support CAP initiatives due to the COVID-19 pandemic.

Financing efficiency ratio[1]
for the years ended March 31



2019	2020	2021	2022	**2023**
35.6%	39.2%	27.5%	35.8%	**39.2%**

(1) For the definition of efficiency ratio, refer to the Glossary on page 129.

Performance against objectives

Financing's net income was $174.9 million higher than planned, mainly due to a lower-than-anticipated provision for expected credit losses, higher net foreign exchanges gains and lower operating and administrative expenses. This was offset by lower-than-anticipated net interest income.

Net interest and fee and other income was $21.6 million lower than the $1.5 billion anticipated, mainly due to the lower net interest income margin achieved. Total operating and administrative expenses of $586.0 million were $19.0 million lower than the corporate plan objective explained by lower pension expenses driven by a higher discount rate.

Financing's loan and ABS portfolio at the end of fiscal 2023, net of allowance for expected credit losses, stood at $35.2 billion, which is $1.9 billion higher than the corporate plan objective of $33.3 billion. Total loan acceptances for the year were $10.3 billion and $515.0 million for ABS for a total of $10.8 billion, which is $1.5 billion higher than the corporate plan objective.

Advisory Services

BDC invests in helping Canadian SMEs grow, innovate, and become more competitive by providing high-value advisory services at a price they can afford. These services include a variety of solutions for both smaller and larger companies, free online educational content and a program targeting high-growth firms. We use a national network of internal and external experts and online capabilities to help companies overcome their challenges and scale up. A BDC study[(1)], supported by data from Statistics Canada, confirms that our advisory services are a key growth enabler for our clients. It found that BDC's impact on the revenue and employment growth of our clients is greater when they receive both financing and advisory services.

Advisory Services results

Demand for Advisory Services was strong in fiscal 2023, mainly as a result of the new services offered this fiscal year to support entrepreneurs in their digital adoption plan under CDAP. Advisory Services delivered 2,491 advisory mandates during fiscal 2023 generating impact and supporting both smaller and larger Canadian SMEs. This represents an increase of 77.2% compared to 1,406 mandates delivered in fiscal 2022.

Advisory Services' net contracts signed reached $41.5 million in fiscal 2023 compared to $29.9 million last year. Advisory Services recorded a net loss of $37.0 million in fiscal 2023, compared to a net loss of $39.0 million in fiscal 2022. Advisory Services' revenues of $38.2 million in fiscal 2023 were higher than the $28.9 million recorded last year driven by the high demand for CDAP mandates. Operating and administrative expenses of $55.5 million were $3.1 million higher compared to those recorded in fiscal 2022 mainly explained by higher business development expenses and cost allocations from other divisions.

Advisory Services results

for the years ended March 31 ($ in millions)

	2023	2022
Revenue	**38.2**	28.9
Delivery expenses[(2)]	**19.7**	15.5
Gross operating margin	**18.5**	13.4
Operating and administrative expenses	**55.5**	52.4
Net loss from Advisory Services	**(37.0)**	(39.0)

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

Performance against objectives

For fiscal 2023, the results for Advisory showed a favourable variance of $5.3 million compared to the net loss of $42.3 million estimated in the corporate plan. Revenues were strong at $38.2 million, surpassing the corporate plan objective of $30.8 million mainly explained by higher net contracts signed for CDAP. This was offset by higher delivery expenses and higher operating and administrative expenses than those projected in the corporate plan.

(1) Measuring BDC's Impact on Clients (2014-2018), June 2022 https://www.bdc.ca/globalassets/digizuite/36170-st-clientimpact-e2206.pdf

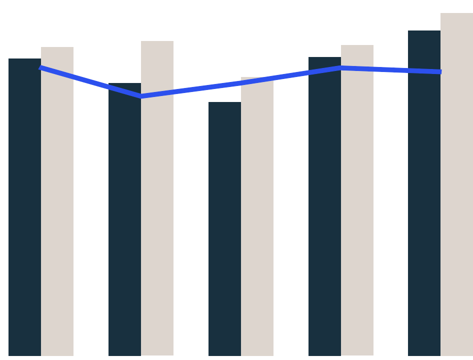
Growth & Transition Capital

Growth & Transition Capital caters to growing businesses, especially high-growth firms with solid business models and management teams but typically lacking sufficient tangible assets to offer as collateral. BDC offers higher risk solutions (cash flow, mezzanine, quasi-equity) to allow entrepreneurs to execute their growth and succession plans while limiting their ownership dilution.

Growth & Transition Capital investment portfolio

GTC's offerings benefited from the post-pandemic economic recovery last fiscal year. Demand for growth and transition capital financing remained strong in the first half of this fiscal year but slowed down in the last six months of the fiscal year due to economic uncertainties that negatively impacted business transition transactions. GTC's investments portfolio at cost increased by 10.3% to $1,234.0 million in fiscal 2023. The fair value as a percentage of cost decreased from 96.2% to 94.9% primarily due to higher net fair value depreciation in fiscal 2023.

Growth & Transition Capital portfolio—total investment
as at March 31 ($ in millions)



	2019	2020	2021	2022	**2023**
Fair value	1,082.3	982.0	913.9	1,075.8	**1,171.0**
Cost	1,120.4	1,132.7	1,003.5	1,118.5	**1,234.0**
Fair value as % of cost	96.6%	86.7%	91.1%	96.2%	**94.9%**

Growth & Transition Capital results

Growth & Transition Capital recorded net income of $49.9 million for the year, compared to net income of $152.3 million in fiscal 2022. Net income included an amount of $16.0 million in net loss attributable to non-controlling interests in fiscal 2023, compared to net income of $15.9 million last year. The unfavourable variance from last year was mainly driven by higher net fair value depreciation on investments. The uncertain economic environment including high inflation, rising interest rates and lower market demand contributed to net fair value depreciation in our portfolio.

Growth & Transition Capital results
for the years ended March 31 ($ in millions)

	2023	2022
Net revenue on investments	**120.7**	142.6
Net change in unrealized appreciation (depreciation) of investments	**(20.2)**	47.2
Net foreign exchange gains (loss)	**(7.2)**	0.0
Income before operating and administrative expenses	**93.3**	189.8
Operating and administrative expenses	**43.4**	37.5
Net income from Growth & Transition Capital	**49.9**	152.3
Net income (loss) attributable to:		
BDC's shareholder	**65.9**	136.4
Non-controlling interests	**(16.0)**	15.9
Net income from Growth & Transition Capital	**49.9**	152.3

Growth & Transition Capital results
for the years ended March 31 (as % of average portfolio)

	2023	2022
Net revenue on investments	**10.3%**	13.8%
Net change in unrealized appreciation (depreciation) of investments	**(1.7%)**	4.6%
Net foreign exchange gains (losses)	**(0.6%)**	0.0%
Income before operating and administrative expenses	**8.0%**	18.4%
Operating and administrative expenses	**3.7%**	3.6%
Net income from Growth & Transition Capital	**4.3%**	14.8%
Net income (loss) attributable to:		
BDC's shareholder	**5.6%**	13.3%
Non-controlling interests	**(1.3%)**	1.5%
Net income from Growth & Transition Capital	**4.3%**	14.8%

Net revenue on investments, comprising net interest income, net realized gains on investments, as well as fee and other income, reached $120.7 million, $21.9 million lower than in fiscal 2022. The decrease was mainly due to higher net realized losses on investments, offset by higher net interest income.

In fiscal 2023, Growth & Transition Capital recorded a net change in unrealized depreciation of investments of $20.2 million compared to a net change in unrealized appreciation of investments of $47.2 million last year. As shown in the table below, the higher net change in unrealized depreciation of investments this fiscal was due to a higher net fair value depreciation on investments, resulting from the current economic uncertainties.

Net change in unrealized (depreciation) appreciation of investments
for the years ended March 31 ($ in millions)

	2023	2022
Net fair value appreciation (depreciation)	**(31.9)**	51.9
Reversal of net fair value depreciation (appreciation) due to realized income and write offs	**11.7**	(4.7)
Net change in unrealized appreciation (depreciation) of investments	**(20.2)**	47.2

Operating and administrative expenses increased by $5.9 million compared to last year. As a percentage of the average portfolio, operating and administrative expenses increased to 3.7% compared to 3.6% in fiscal 2022. The increase was mainly due to higher salaries and employee benefits and higher cost allocations from other divisions.

Performance against objectives

Growth & Transition Capital recorded net income of $49.9 million in fiscal 2023, which represents an unfavourable variance of $13.8 million compared to net income of $63.7 million projected in the corporate plan. This unfavourable variance in net income was attributable to the net fair value depreciation of investments, which was $25.4 million higher than planned and higher net foreign exchange losses of $7.2 million. This was offset by net interest income, which was $17.6 million higher than anticipated in corporate plan.

Venture Capital

Venture Capital actively supports the development of a healthy and vibrant venture capital (VC) ecosystem to foster innovation in Canada. BDC plays an important role by helping Canadian innovators launch and grow technology-focused businesses and commercialize their innovations. It backs approximately 200 Canadian companies through direct investments in businesses and 500 Canadian companies through indirect investments in 125 VC funds. VC's efforts to make Canadian venture capital a financially viable and attractive asset class for private sector investors have helped propel the market forward.

Direct investment

Since 2012, BDC has been managing several direct internal investment funds to foster and finance innovation in many sectors including but not limited to: information and communications technology; healthcare; industrial clean technology; clean energy; materials and agriculture and deep tech.

BDC is also a leader in reinforcing the early-stage innovation ecosystem and filling the gap in seed funding with strategic investments in other ecosystem-building activities.

Indirect investment

The goal of BDC's indirect investing strategy is to help create a thriving ecosystem of high-performing fund managers, while generating positive results. To achieve this mandate, BDC supports a mix of emerging and established managers, and focuses on helping top-performing funds evolve into globally competitive mature funds over time. The performance of BDC's own portfolio of fund investments—a good proxy for Canadian industry performance—has improved significantly in recent years, closing the gap with the more mature U.S. VC industry.

Venture Capital portfolio

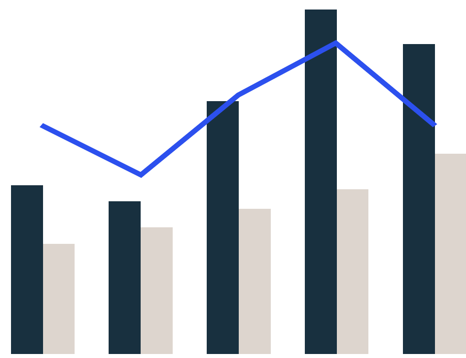
The fair value of the portfolio decreased from $3,226.6 million in fiscal 2022 to $2,901.1 million this year. The fair value of the total portfolio as a percentage of cost was 154.6% as at March 31, 2023, down from 209.3% last year, driven by the fair value depreciation of investments this fiscal year due to economic uncertainties in the venture capital market. High inflation, rising interest rates, declines in public markets, more specifically the technology market, as well as decreases in growth expectations from our investee companies, all contributed to higher fair value depreciation in our portfolio, which was in line with market trends. VC's results are affected by high volatility in the fair value of our investments due to the riskier nature of venture capital.

VC's investment portfolio is composed of $35.6 million in debt investments, $1,705.8 million in direct equity investments and $1,159.7 million in indirect equity investments in funds.

The total Venture Capital commitment to investees, which represents the portfolio outstanding at cost plus undisbursed commitments, amounted to $2,532.2 million as at March 31, 2023. This represents $60.0 million committed to debt investments, $1,275.4 million to direct equity investments and $1,196.8 million to indirect equity investments in funds, for an increase of 21.3% compared to last year.

Venture Capital portfolio—total investments

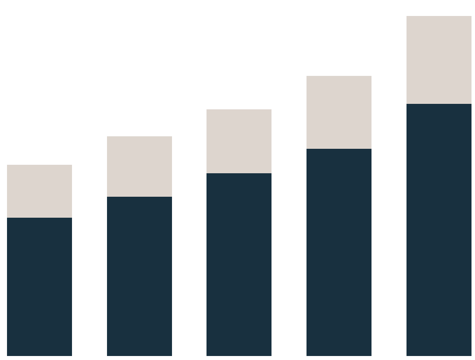
as at March 31 ($ in millions)



	2019	2020	2021	2022	**2023**
Fair value	1,566.2	1,428.1	2,368.1	3,226.6	**2,901.1**
Portfolio (cost)	1,021.4	1,185.4	1,358.9	1,541.3	**1,876.6**
Fair value as % of cost	153.3%	120.5%	174.3%	209.3%	**154.6%**

Total commitment to Venture Capital investees

as at March 31 ($ in millions)



	2019	2020	2021	2022	**2023**
Portfolio (cost)	1,021.4	1,185.4	1,358.9	1,541.3	**1,876.6**
Undisbursed commitment	395.5	449.6	479.1	546.8	**655.6**
Total commitment to Venture Capital investees	1,416.9	1,635.0	1,838.0	2,088.1	**2,532.2**

Venture Capital results

Venture Capital recorded a net loss of $637.9 million, compared to net income of $988.0 million last year. The unfavourable variance from last year was mainly driven by higher net change in unrealized depreciation of investments, due to higher net fair value depreciation on investments.

Venture Capital results

for the years ended March 31 ($ in millions)

	2023	2022
Net revenue on investments	**45.2**	471.2
Net change in unrealized appreciation (depreciation) of investments	**(804.8)**	648.4
Net foreign exchange gains (losses)	**150.3**	(11.4)
Income (loss) before operating and administrative expenses	**(609.3)**	1,108.2
Operating and administrative expenses	**28.6**	120.2
Net income (loss) from Venture Capital	**(637.9)**	988.0
Net income (loss) attributable to:		
BDC's shareholder	**(575.7)**	929.2
Non-controlling interests	**(62.2)**	58.8
Net income (loss) from Venture Capital	**(637.9)**	988.0

The net revenue on investments, which comprised net realized gain on investments, write-offs, and other income, was $45.2 million, compared to $471.2 million recorded in fiscal 2022. The decrease of $426.0 million in net revenue was due to lower net realized gains from sales of investments and higher write-offs. Proceeds received from divestiture of investments amounted to $158.0 million in fiscal 2023, compared to $708.1 million in fiscal 2022. Fiscal 2022 was a successful year in terms of divestitures, BDC sold several of its investments to public and private companies, which is in line with our strategy of supporting the best performing Canadian companies with the technology and talent to assume leadership at the global level. After the peak in VC deal volume last year, there were fewer divestitures in fiscal 2023 as the market conditions were less favourable due to the economic downturn.

VC recorded a net change in unrealized depreciation of investments of $804.8 million, compared to a net change in unrealized appreciation of investments of $648.4 million last year. The decrease is mainly due to higher net fair value depreciation on investments.

Net change in unrealized appreciation (depreciation) of investments
for the years ended March 31 ($ in millions)

	2023	2022
Net fair value appreciation (depreciation)	**(785.5)**	986.2
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	**(19.3)**	(337.8)
Net change in unrealized appreciation (depreciation) of investments	**(804.8)**	648.4

A net fair value depreciation on investments of $6.7 million was recorded for debt investments, $657.7 million for direct equity investments, and $121.1 million for indirect equity investments in funds in fiscal 2023 for a total net fair value depreciation of $785.5 million, explained by observed private and public market decreases in the past year in both direct and indirect underlying portfolios.

Net foreign exchange gains of $150.3 million on investments were due to foreign exchange fluctuations in the U.S. dollar denominated investments. BDC uses foreign exchange contracts to hedge U.S. dollar proceeds, following the occurrence of a liquidity event under which a venture capital investment is monetized as cash.

Operating and administrative expenses were $28.6 million, lower than the $120.2 million recorded last year, mainly due to a decrease in the long-term incentive plan provision in salaries and benefits. Due to significant net fair value appreciation on investments recognized in fiscal 2022, a contingent liability was recorded related to the long-term incentive plan to reflect the amount which was expected to become payable in future periods as the gains on investments materialize into benefits payable to plan participants. In fiscal 2023, we decreased the contingent liability to reflect the significant net fair value depreciation recorded on investments.

Venture Capital's net loss attributable to non-controlling interests was $62.2 million for the year, compared to a net income of $58.8 million last year. The decrease in non-controlling interests was due to higher net fair value depreciation on investments.

Performance against objectives

Venture Capital's recorded a net loss of $637.9 million in fiscal 2023, compared to net income of $148.7 million in the corporate plan. The unfavourable variance of $786.6 million was due to higher-than-anticipated net change in unrealized depreciation on investments and lower net revenue on investments. It was partly offset by higher net foreign exchange gains. Venture Capital is a risky asset class that is subject to volatility and difficult to predict.

Capital Incentive Programs

The Capital Incentive Programs segment includes Venture Capital Action Plan, Venture Capital Catalyst Initiative, Venture Capital Catalyst Initiative II, Cleantech Practice, and Indigenous Growth Fund.

VCAP and VCCI

BDC plays a leadership role in strengthening the Canadian venture capital ecosystem. Recognizing the importance of venture capital to Canada's economic prosperity, the government asked BDC to manage VCAP and VCCI to help increase available capital for promising innovative Canadian start-ups and create a vibrant and sustainable venture capital ecosystem in Canada led by the private sector.

BDC's role was to provide advice and analysis to support the government's design of VCAP and VCCI; negotiate and make investments as the government's agent; administer the flow of capital; and monitor the initiative for the government.

Through VCAP, the government committed $340.0 million to four private sector funds of funds and $50.0 million to four high-performing VC funds. This capital was used to leverage over $904.0 million in private sector capital and $112.5 million from provincial governments, bringing the total venture capital raised under VCAP to $1.4 billion.

Through VCCI, the government committed $372.0 million to four private sector funds of funds, five alternative model VC funds and three cleantech funds. This capital was used to leverage over $1.3 billion in private sector capital including Crown Corporations and $162.0 million from provincial governments, bringing the total venture capital raised under VCCI to $1.9 billion. In fiscal 2023, VCCI was renewed to deploy $450 million under the Venture Capital Catalyst Initiative II (VCCI II), to support private funds of funds, funds focused in investments in life science technologies and entrepreneurs from underrepresented groups.

Cleantech Practice

Recognizing the importance of giving high-potential innovative cleantech firms access to financing, the federal government requested BDC to further support the growth and expansion of future Canadian global cleantech champions. The 2017 budget allocated $600 million in new capital to BDC for debt and equity transactions that exceed BDC's normal risk appetite. BDC's Cleantech Practice aims to build globally competitive Canadian cleantech firms and a long-term commercially sustainable cleantech industry that will, over time, be able to attract the necessary private sector capital investments to grow.

Indigenous Growth Fund

BDC initiated the Indigenous Growth Fund in fiscal 2021. With a capital injection of $50 million from the government, BDC will provide $100 million to Aboriginal Financial Institutions to offer loans to new and expanding Indigenous businesses.

Capital Incentive Programs portfolio

As at March 31, 2023, the total portfolio stood at $1.5 billion ($663.7 million from VCAP, $304.7 million from VCCI, $523.6 million from Cleantech Practice, and $22.6 million from IGF), compared to $1.4 billion last year ($715.9 million from VCAP, $251.3 million from VCCI, $410.3 million from Cleantech Practice and $5.0 million from IGF). In fiscal 2023, $350.0 million was authorized for VCCII, but not yet disbursed, to support funds of funds.

Capital Incentive Programs results

CIP recorded net income of $17.9 million in fiscal 2023, compared to net income of $303.8 million last fiscal. The decrease in net income was mainly due to lower net change in unrealized appreciation of investments and lower net revenue on investments in line with current venture capital market trends. Operating and administrative expenses amounted to $7.9 million in fiscal 2023, slightly higher than last year.

Capital Incentive Programs results
for the years ended March 31 ($ in millions)

	2023	2022
Net revenue on investments	**17.5**	76.1
Net change in unrealized appreciation (depreciation) of investments	**3.4**	234.2
Net foreign exchange gains (losses)	**4.9**	(0.2)
Income before operating and administrative expenses	**25.8**	310.1
Operating and administrative expenses	**7.9**	6.3
Net income from Capital Incentive Programs	**17.9**	303.8

CIP recorded a net change in unrealized appreciation of investments of $3.4 million, compared to a net change in unrealized appreciation of investments of $234.2 million last year. The decrease is mainly due to higher net fair value depreciation on investments.

Net change in unrealized (depreciation) appreciation
for the years ended March 31 ($ in millions)

	2023	2022
Net fair value appreciation (depreciation)	**(2.2)**	350.3
Reversal of net fair value depreciation (appreciation) due to realized income and write-offs	**5.6**	(116.1)
Net change in unrealized appreciation (depreciation) of investments	**3.4**	234.2

Performance against objectives

Net income was $17.9 million, $6.1 million lower than anticipated, mainly due to higher net fair value depreciation on investments, offset by higher net revenue and higher net foreign exchange gains.

Credit Availability Program

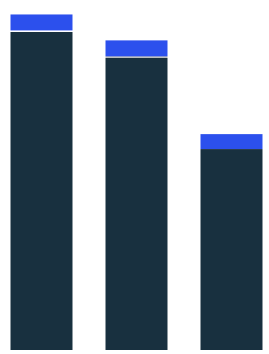
All our COVID-19 measures are grouped under the Credit Availability Program segment. Through our relief measures, we extended our reach to tens of thousands of entrepreneurs who had not previously been clients and increased our support for existing clients. This action was taken in concert with the federal government and the private sector to help entrepreneurs through the crisis. These measures ended in fiscal 2022.

Following the announcement of the Canada Digital Adoption Program in March 2022, CAP also includes CDAP. CDAP is a program by the Government of Canada to help SMEs adopt digital technologies and stay competitive by providing access to funding and expertise. The program is divided into two streams, each applicable to different sized SMEs. BDC's role is to provide advisory services and zero-interest loans to businesses that are eligible for the stream *Boost your Business Technology*.

Credit Availability Program portfolio

As at March 31, 2023, CAP's loan portfolio, net of allowance for expected credit losses, stood at $1.9 billion. CAP's investment portfolio stood at $144.8 million ($10.8 million in debt investments and $134.0 million in direct equity investments).

Credit Availability Program portfolio
as at March 31 ($ in millions)

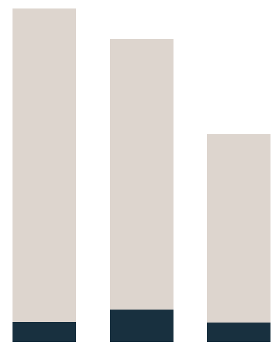


	2021	2022	**2023**
Loan portfolio[1]	3,028.6	2,784.3	**1,912.3**
Debt investments	18.1	13.7	**10.8**
Direct equity investments	150.9	152.6	**134.0**
Total CAP portfolio	3,197.6	2,950.6	**2,057.1**

(1) Net of allowance of $108.6 million

The gross loan portfolio comprised $1,955.4 million in performing loans and $65.5 million in impaired loans. As at March 31, 2023, 90.7% of the loan portfolio was composed of floating-rate loans.

Credit Availability Program loan portfolio
as at March 31 ($ in millions)



	2021	2022	**2023**
Fixed-rate loan portfolio	191.7	313.5	**187.6**
Floating-rate loan portfolio	3,046.9	2,629.0	**1,833.3**
Total loan portfolio	3,238.6	2,942.5	**2,020.9**

Credit Availability Program results

CAP recorded a net income of $57.5 million for fiscal 2023, higher than the net loss of $52.6 million recorded in fiscal 2022, mainly driven by higher net interest income due to intersegment interests on CAP's cash balances transferred to the core segment. This was offset by higher provision for expected credit losses, higher net realized losses on investments and higher net losses on other financial instruments. Operating and administrative expenses stood at $24.9 million, which is lower than the $40.8 million for fiscal 2022 mainly explained by lower cost allocations from other divisions.

Credit Availability Program results

for the years ended March 31 ($ in millions)

	2023	2022
Net interest income	**335.4**	117.6
Fee and other income	**39.8**	45.2
Provision for expected credit losses	**(258.0)**	(183.1)
Net realized gains (losses) on investments	**(6.0)**	17.0
Net change in unrealized appreciation (depreciation) of investments	**(10.6)**	(7.9)
Net gains (losses) on other financial instruments	**(18.9)**	0.0
Net foreign exchange gains (losses)	**0.7**	(0.6)
Income (loss) before operating and administrative expenses	**82.4**	(11.8)
Operating and administrative expenses	**24.9**	40.8
Net income (loss) from Credit Availability Program	**57.5**	(52.6)

Credit Availability Program results

for the years ended March 31 (as % of average portfolio)

	2023	2022
Net interest income	**13.5%**	3.7%
Fee and other income	**1.6%**	1.4%
Provision for expected credit losses	**(10.4%)**	(5.7%)
Net realized gains (losses) on investments	**(0.2%)**	0.5%
Net change in unrealized appreciation (depreciation) of investment	**(0.4%)**	(0.2%)
Net gains (losses) on other financial instruments	**(0.8%)**	0.0%
Net foreign exchange gains (losses)	**0.0%**	0.0%
Income (loss) before operating and administrative expenses	**3.3%**	(0.3%)
Operating and administrative expenses	**1.0%**	1.3%
Net income (loss) from Credit Availability Program	**2.3%**	(1.6%)

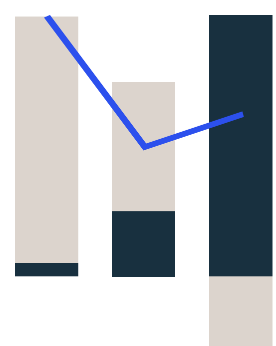
Provision for expected credit losses

In fiscal 2023, CAP recorded a provision for expected credit losses on loans of $258.0 million, compared to a provision of $183.1 million recorded in fiscal 2022. The provision for expected losses on performing loans was a reversal $3.5 million in fiscal 2023, representing 0.1% of the average portfolio, compared to a provision of $121.6 million in fiscal 2022. The provision on impaired loans was $261.5 million in fiscal 2023, representing 10.5% of the average portfolio, compared to a provision of $61.5 million in fiscal 2022. The higher provision for expected credit losses compared to last year is mainly driven by an increase in HASCAP loans that migrated from performing to impaired.

Impaired loans of the CAP segment amounted to $65.5 million, representing 3.2% of the total loans outstanding.

Provision for expected credit losses on loans

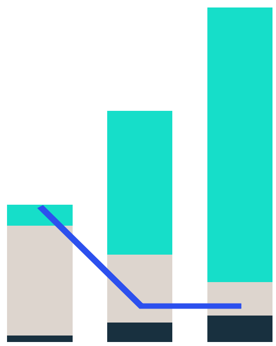
for the years ended March 31 ($ in millions)



	2021	2022	2023
Impaired	12.6	61.5	**261.5**
Performing	232.6	121.6	**(3.5)**
Provision for expected credit losses on loans	245.2	183.1	**258.0**
As a % of average loan portfolio	11.3%	5.7%	**10.4%**

The total allowance for expected credit losses on loans was $108.6 million, representing 5.4% of the total loans outstanding and the allowance for expected credit losses on loan commitments and guarantees reached $497.4 million which is mainly attributable to HASCAP.

Allowance for expected credit losses
as at March 31 ($ in millions)



	2021	2022	2023
Impaired	10.9	34.7	**47.5**
Performing	199.2	123.5	**61.1**
Total allowance	210.1	158.2	**108.6**
Total allowance as a % of loan portfolio	6.5%	5.4%	**5.4%**
ECL on commitments	38.6	260.0	**497.4**

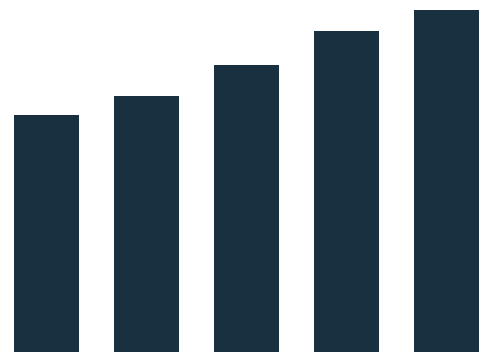
Performance against objectives

CAP recorded a net income of $57.5 million, which represents a favourable variance of $435.2 million compared to a net loss of $377.7 million projected in the corporate plan. The favourable variance was primarily due to lower than projected provision for expected credit losses, higher-than-projected net interest, fee and other income and lower-than-anticipated net losses on other financial instruments.

Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows

Total assets amounted to $44.3 billion, an increase of $2.7 billion from a year ago, primarily due to a $2.6 billion increase in the loans portfolio. In November 2022, BDC received a capital injection from its shareholder of $343.0 million and issued 3,430,000 common shares in support of the Canada Digital Adoption Program. In March 2023, BDC repurchased 50.0 million of its common shares for a cash payment of $5.0 billion, representing a return of capital that was previously received in support of the Credit Availability Program to its shareholder.

Total assets—BDC
as at March 31 ($ in millions)



2019	2020	2021	2022	2023
30,656	33,153	37,148	41,567	**44,285**

At $35.9 billion (gross portfolio of $36.9 billion, net of a $1.0 billion allowance for expected credit losses), the loan portfolio represented BDC's largest asset. The gross loan portfolio has grown by 7.5% since March 31, 2022, reflecting an increase in the level of activity in Financing. BDC remained committed to actively supporting SMEs' needs and helping them improve competitiveness, while continuing to identify and address market gaps in financing across Canada.

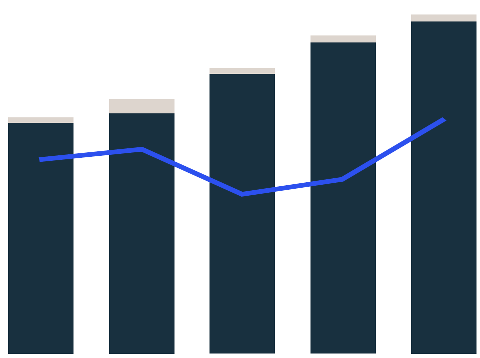
BDC's investment portfolios, which include debt investments, direct equity investments and indirect equity investments in funds stood at $5.7 billion, compared to $5.9 billion as at March 31, 2022. The debt investments portfolio amounted to $1.2 billion as at March 31, 2023 compared to $1.1 billion as at March 31, 2022. Direct equity investments decreased from $2.6 billion last year to $2.3 billion as at March 31, 2023 due to net fair value depreciation. Indirect equity investments in funds amounted to $2.2 billion as at March 31, 2023 comparable to $2.2 billion as at March 31, 2022. The asset-backed securities portfolio stood at $1.2 billion, compared to $988.5 million as at March 31, 2022.

Derivative assets of $11.6 million and derivative liabilities of $0.1 million reflect the fair value of derivative financial instruments as at March 31, 2023. Net derivative fair value decreased by $0.7 million compared to the level as at March 31, 2022, due to foreign exchange impact on forward contracts. BDC acquires derivative financial instruments to manage exposure to interest, currency and other market risks. BDC does not hold derivatives for speculative or trading purposes.

As at March 31, 2023, BDC recorded a net defined benefit asset of $260.5 million related to the registered pension plan, and a net defined benefit liability of $224.3 million for the other plans, for a total net defined benefit asset of $36.2 million. This represents a positive variance of $35.6 million compared to the total net defined benefit asset as at March 31, 2022, mostly as a result of remeasurement gains recorded during the year. For further information, refer to Note 15—*Net Defined Benefit Asset or Liability* to the Consolidated Financial Statements.

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, totaled $878.9 million as at March 31, 2023, compared to $906.4 million as at March 31, 2022. The decrease is primarily explained by cash flows used by operating and investing activities, partly offset by cash flows provided by financing activities.

Borrowings
as at March 31 ($ in millions)



	2019	2020	2021	2022	**2023**
Liquid assets	704	1,821	801	906	**879**
Portfolios[1]	29,797	31,013	36,070	40,135	**42,851**
Borrowings	22,395	23,569	18,373	20,093	**26,925**

(1) Includes net portfolios, investments and asset-backed securities

As at March 31, 2023, BDC funded its portfolios and liquidities with borrowings of $26.9 billion and total equity of $16.1 billion. Borrowings comprised $19.8 billion in short-term notes and $7.2 billion in long-term notes.

For the year ended March 31, 2023, net cash flows used by investing activities amounted to $745.4 million. Financing activities provided $2,122.1 million in net cash flows mainly explained by the net change in short-term notes of $5,352.5 million and net issuance of long-term notes of $2,675.0 million. BDC issued common shares totalling $343.0 million and repurchased shares for a total of $5.0 billion. Operating activities used $1,404.2 million in net cash flows, mainly to support the growth of the loans portfolio. For further information, refer to the Consolidated Statement of Cash Flows on page 54.

Net defined benefit asset or liability

The net defined benefit asset or liability related to BDC's pension plan, supplemental plans and other employee future benefits are based on actuarial valuations and assumptions detailed in Note 15—*Net Defined Benefit Asset or Liability* to the Consolidated Financial Statements. Several factors, particularly the discount rate used to value future liabilities, influence the calculation of those obligations. For accounting measurement purposes, the discount rate used at each measurement date is based on market interest rates for long-term, high-quality debt instruments.

BDC's employer contributions to the registered pension plan totalled $52.0 million in fiscal 2023, compared to $45.4 million in fiscal 2022. BDC's best estimate of the contributions to be paid for fiscal 2024 is $30.3 million. For more information regarding BDC's defined benefit pension plan, refer to Note 1—*Act of Incorporation, Objectives and Operations of the Corporation* to the Consolidated Financial Statements.

Further to the directive received in December 2014 from the Governor in Council, BDC must ensure a 50:50 current service cost-sharing ratio between employee and employer. As at December 31, 2022, BDC reached a level of employer contribution that, although not exactly 50:50, only slightly exceeded 50% of the current service cost on a cumulative basis, and was administered in accordance with regulations and its funding policy.

BDC funds its registered pension plan in accordance with applicable federal pension legislation and actuarial standards of practice in Canada to ensure proper funding of employee benefit. As of December 31, 2022, the funded status of the registered pension plan was a going-concern ratio of 134.6% (with a surplus in excess of $453.9 million) and a wind-up/solvency ratio of 103.2%. Mandatory employer current service contribution holiday occurs whenever the going-concern ratio is above 125% and the wind-up/ solvency ratio is above 105%. Consequently, BDC will continue to contribute to the pension fund in future years, as prescribed by the applicable federal pension legislation.

Capital management

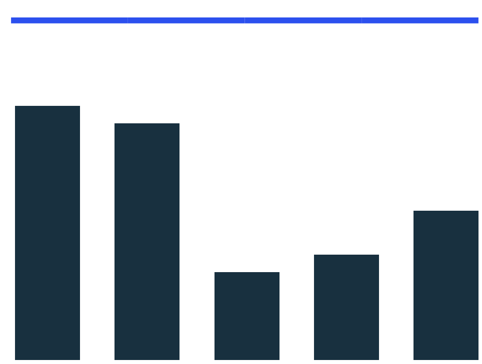
Statutory limitations

The *BDC Act* specifies that the aggregate of borrowings and contingent liabilities in the form of guarantees provided by BDC may not exceed 12 times its equity. This ratio excludes accumulated other comprehensive income. BDC's debt-to-equity ratio as at March 31, 2023 increased to 1.9:1 from 1.2:1 as at March 31, 2022, mostly due to the capital reduction as a result of the $5.0 billion common shares repurchase and lower net income this fiscal.

In addition, the amount of 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 $20.0 billion per the *Business Development Bank of Canada Act, 1995* amended in October 2020. As at March 31, 2023, these amounts totalled $7.3 billion, compared to $12.0 billion as at March 31, 2022.

On November 16, 2022, BDC issued 3,430,000 common shares for cash proceeds of $343.0 million, which represents a capital injection in support of the Canada Digital Adoption Plan. On June 8, 2022, BDC's Board of Directors authorized the repurchase of 50,000,000 common shares for a cash payment of $5.0 billion to reduce the excess capital in CAP related to COVID-19 initiatives. The repurchase was finalized by March 31, 2023.

Debt-to-equity ratio
as at March 31



	2019	2020	2021	2022	**2023**
Actual	2.9	2.7	1.0	1.2	**1.9**
Statutory limit	12.0	12.0	12.0	12.0	**12.0**

Capital adequacy

BDC's capital management framework ensures effective capital management in alignment with regulatory guidelines (Office of the Superintendent of Financial Institutions (OSFI)/Basel) and with other Canadian financial institutions. BDC strives to continuously evolve its capital adequacy techniques and measures to better reflect the Bank's inherent risks while integrating industry best practices.

BDC's capital management framework is based on its Internal Capital Adequacy Assessment Process (ICAAP), which is aligned with the OSFI's guidelines and the Capital and Dividend Policy Framework for Financial Crown Corporations.

The key principles behind BDC's capital management framework are as follows:

- BDC has adequate capital to protect itself against risks that could adversely impact its ability to deliver on its mandate and minimize the risk of recapitalization through a complete economic cycle.
- Capital generated above BDC's target capital is available to be returned to the shareholder in the form of dividends, at the discretion of BDC's Board of Directors.

The concept that capital has a cost is also embedded in the framework and related policies. It is ensured through strategic and efficient capital allocation to business segments, pricing models based on return on risk adjusted capital (RORAC) and assessment of financial performance against expected historical ranges and limits, as set out in BDC's risk appetite statement.

BDC's internal capital requirements are determined in the application of OSFI's Capital Adequacy Requirements for calculation of Pillar 1 and Pillar 2 capital requirements. Capital adequacy measures are used as an estimate of the required capital to absorb the maximum potential losses inherent in our activities. To assess its capital adequacy, BDC monitors its capital status regularly by comparing its available capital to its required capital. A key measure for assessing capital status adequacy is BDC's internal capital ratio.

To manage the capital for CAP, BDC has established an internal structure where CAP and its related capital is maintained independently from BDC's core portfolio. This is because CAP programs operate under a different risk appetite level than the core portfolio. BDC's core capital management framework excludes CIP and CAP because these programs are managed by BDC under a specific capital allocation from the shareholder.

Available capital

Available capital is composed of equity attributable to BDC's shareholder (share capital, contributed surplus and retained earnings) and adjustments aligned with industry best practices and the capital management framework. Calculations are made as prescribed in OSFI's Capital Adequacy Requirements.

Required capital

BDC employs rigorous models to assess demand for capital arising from credit and investment, operational, business and market risk (interest rate risk as well as market risk related to the pension plan). Economic capital is a measure of risk used to determine the amount of capital required to ensure a financial institution's solvency given its risk profile. Economic capital is the methodology used to determine BDC's Pillar 2.

Economic capital models are developed based on advanced quantification methods and internal risk-based assumptions and take into account risk diversification benefits and both disbursed and undisbursed commitments. A key principle underlying the economic capital models is the establishment of a solvency level that is set at a credit rating of AA. Economic capital models are validated by a third party as per the model validation policy.

Management operating range

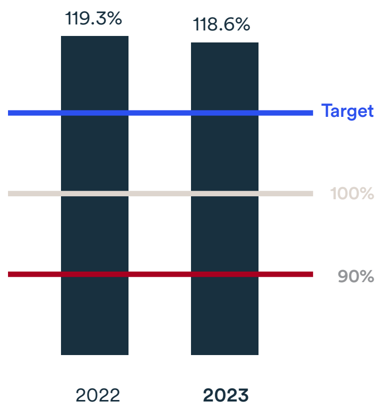
BDC's target capital level also factors in an operating range to mitigate the impact of unplanned capital volatility. It accounts for differences between planned and actual levels of activities, as well as other Corporate Plan assumptions that are difficult to predict and allows for capital to be managed near a target level by mitigating unplanned required capital.

Internal capital ratio (applicable to BDC's core portfolio)

BDC's key measure for determining and assessing the adequacy of its capital status is its internal capital ratio, which is expressed as the level of available capital over the economic capital required. The internal capital ratio is used to set BDC's target capital level as well as measure its capital adequacy risk appetite measures. Based on BDC's risk appetite statement, the capital management framework embeds the monitoring of the internal capital ratio through a complete economic cycle, against a minimum limit (90%) and a tolerance threshold in normal economic conditions (100%). BDC's target capital is revised annually based on BDC's Corporate Plan forecasts for internal capital requirements and the management operating range, as well as any capital required by a potential stress testing capital shortfall, identified as part of the enterprise-wide stress testing program.

Internal capital ratio (BDC's core portfolio)[1]

as at March 31



- Actual
- Target capital
- Tolerance threshold (normal economic conditions)
- Limit (stressed period)

(1) Available capital as a percentage of economic capital required

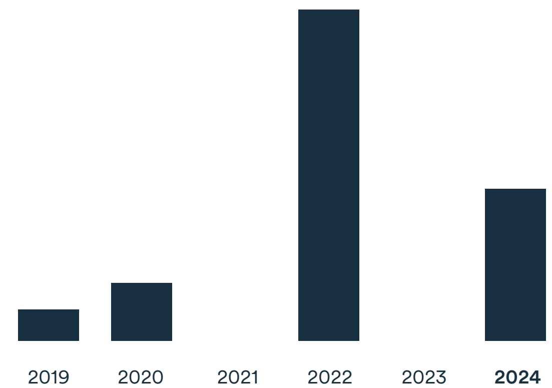
BDC's internal capital ratio, as at March 31, 2023, was 118.6%, above our internal target, but below the ratio of 119.3% as at March 31, 2022. The decrease in the internal capital ratio was mainly driven by an increase in capital required stemming from high authorizations in the Financing and Venture Capital portfolios that outpaced capital generation from net interest income and Venture Capital proceeds.

Dividends

BDC's dividend policy is aligned with the dividend methodology included in the new Capital and Dividend Policy Framework for Financial Crown Corporations. Capital generated above the internal target rate, which is the difference between available capital and the combination of capital demand and management operating range, is available for additional operational needs and/or dividend payments, subject to the discretion of the Board of Directors. The calculation excludes CIP and CAP.

Dividends

for the years ended March 31 ($ in millions)



	2019	2020	2021	2022	2023	**2024**
Common dividends declared[1]	69.7	128.4	0.0	735.0	0.0	**337.0**

(1) Based on previous year's performance

As of March 31, 2023, capital of $1.0 billion ($1.0 billion as of March 31, 2022) was generated above the internal target rate. On the date of approval of the fiscal 2023 Consolidated Financial Statements, a dividend in the amount of $337.0 million was declared based on fiscal 2023 performance while no dividend was paid in fiscal 2023 based on fiscal 2022 performance.

Capital Summary (BDC's core portfolio, excluding CAP)

($ in million)

	March 31, 2023	March 31, 2022
Equity attributable to BDC's shareholder	**16,139**	20,404
AOCI on cash flow hedges	**–**	(2)
Intangible assets, net of accumulated amortization	**(48)**	(40)
Net defined benefit asset	**(260)**	(233)
Adjustments for allowance for expected credit losses	**456**	412
Portion of equity attributable to CIP	**(2,036)**	(2,018)
Portion of equity attributable to CAP	**(3,480)**	(8,079)
Adjustments to available capital	**(5,368)**	(9,960)
Total available capital (a)	**10,771**	10,444
Required capital (b)	**9,084**	8,751
Capital status (a-b)	**1,687**	1,693
Management operating range (c)	**675**	650
Capital generated above the internal target rate (a-b-c)	**1,012**	1,043
Internal capital ratio	**118.6%**	119.3%

Credit Availability Program portfolio

The credit availability program brings together initiatives meant to increase capital availability for specific SME needs, such as COVID-related needs for which the shareholder provided a total capital injection of $8.4 billion, $944.0 million in fiscal 2020 and $7.5 billion in fiscal 2021, and the digital adoption requirements through the Canada Digital Adoption Program for which the shareholder provided a $343.0 million capital injection in fiscal 2023. This brings the total capital injection received to $8.7 billion that earmarked for CAP initiatives.

On June 8, 2022, BDC's Board of Directors authorized the repurchase of 50,000,000 of its common shares for a cash payment of $5.0 billion to reduce the excess capital in CAP related to COVID-19 initiatives. The repurchase was finalized by March 31, 2023. Capital generated above the internal target rate for CAP reached $2.4 billion in fiscal 2023, compared to $6.9 billion in fiscal 2022.

Capital summary (BDC's CAP portfolio)

($ in million)

	March 31, 2023	March 31, 2022
Equity attributable to BDC's shareholder	**3,480**	8,079
Adjustments for allowance for expected credit losses	**65**	77
Adjustments to available capital	**65**	77
Total available capital (a)	**3,545**	8,156
Required capital (b)	**1,006**	1,153
Capital status (a-b)	**2,539**	7,003
Management operating range (c)	**105**	128
Capital generated above the internal target rate (a-b-c)	**2,434**	6,875

4. Risk Management

BDC's mandate is to support the establishment and development of businesses in Canada, with a focus on small and medium-sized enterprises.

Consistent with our mandate, BDC generally assumes more risk than a typical financial institution to better support SMEs. BDC's non-investment-grade exposure is significantly higher than that of the six largest Canadian chartered banks. However, BDC's strong risk management practices and culture enable it to take the risks necessary to fulfill its mandate.

BDC's risk management framework (RMF) outlines the methodology used to manage the risks inherent in BDC's activities, while ensuring the outcomes of these risk-taking activities are aligned with BDC's strategy, risk appetite and mandate. It also reinforces a risk management culture across the organization that ensures a high level of risk awareness and makes risk management an integral part of strategic and operational decision-making.

BDC's risk management principles

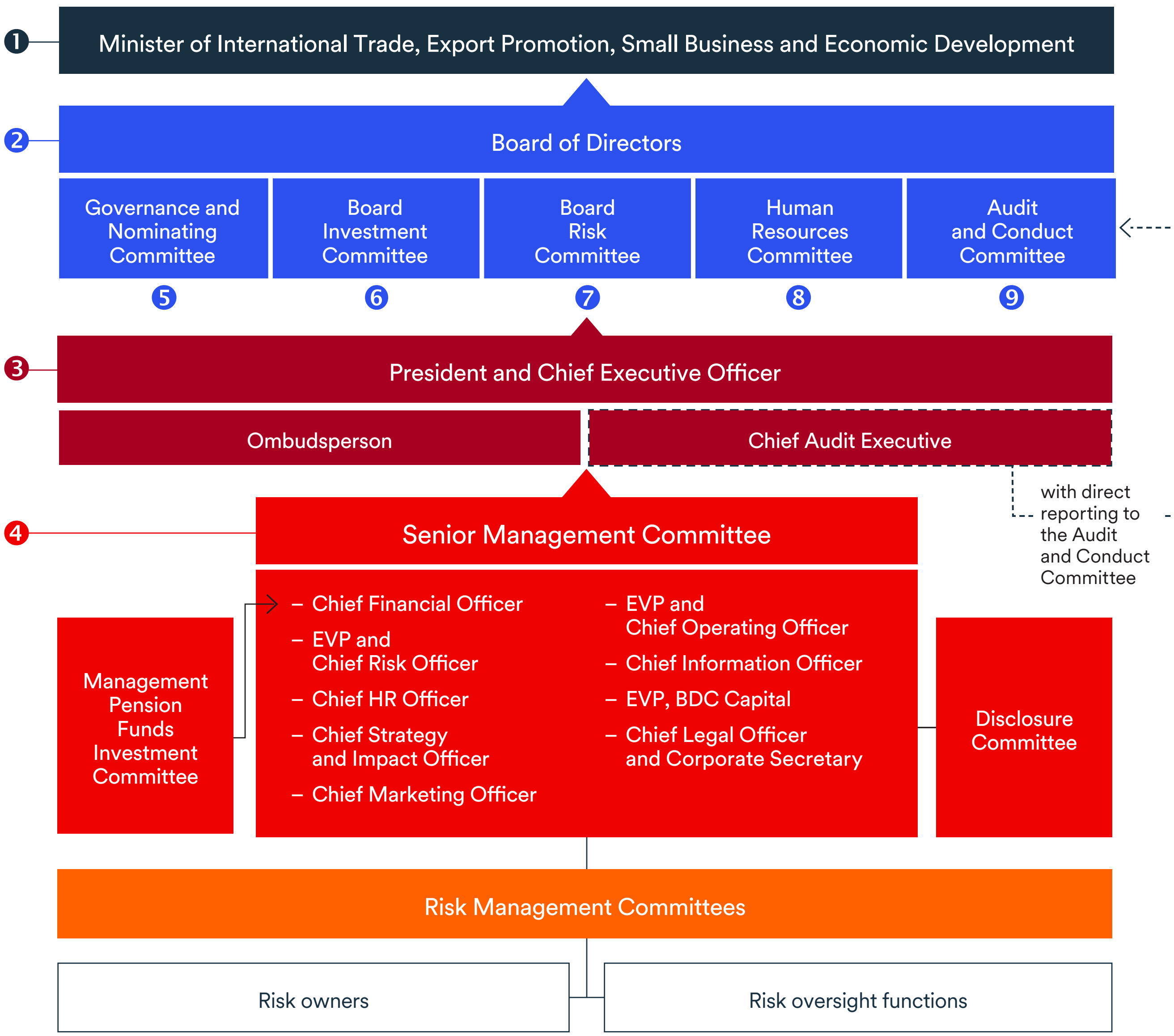
Key risk management principles that support the organization in our risk governance activities are the following.

- **Risk impact:** Risk management involves identifying, assessing and managing risks that may impede BDC and its clients from achieving their objectives.
- **Risk accountability:** Risk management is everyone's responsibility, from members of the Board of Directors to employees carrying out oversight, business and corporate functions.
- **Transparency:** Employees should be comfortable talking openly and honestly about risk, using a common risk vocabulary that promotes shared understanding.
- **Strategic balance:** BDC manages risk by balancing it with our strategic objectives, our mandate to support Canadian entrepreneurs and our ability to reinvest capital and/or declare a dividend to the shareholder at the discretion of the Board of Directors.
- **Risk integration:** BDC integrates risk management into key business processes and activities, including strategic, operational, business and budget planning, as well as lending, investing and advisory services.
- **Risk challenge:** BDC fosters an open and transparent culture that promotes and encourages the challenging of decisions as part of risk management. The timely escalation of risk issues to the appropriate management level is fundamental to an effective dialogue about risk.
- **Risk governance:** Policies codify comprehensive processes for identifying, assessing, monitoring and reporting risk, and for managing risk within approved limits.

  Oversight functions, executive-level reporting, and accountability to an independent Board of Directors and the shareholder ensure continuous and objective assessment of risk.
- **Continuous improvement:** BDC strives to ensure the collective ability of its employees to manage risk effectively is continuously improving through training and other professional development initiatives.

The successful application of these risk management principles in day-to-day activities is essential to enhancing employees' awareness and understanding of their responsibilities within BDC's risk culture.

Risk governance framework



Risk owners

— Identify, assess, manage and mitigate risks in all day-to-day activities.

Risk oversight functions

— Design, implement and communicate risk governance, risk and control strategies, and risk management policies, directives and procedures.

— Challenge first line in the development, management and updating of activities to address governance, risk and controls.

— Objectively provide oversight of first-line activities.

The Board of Directors

The board and its committees oversee risk governance and risk management.

In addition to approving the risk appetite framework, the board also approves risk policies and strategies; ensures BDC's risk management is effective; reviews portfolio and treasury risks; reviews capital adequacy and stress-testing analyses; sets clear levels of delegation of authority for transactions; and ensures an appropriate link between risk and reward.

All committees consider risk in their deliberations and have specific responsibilities for managing risk. For full details on the board and its committees, please see the Corporate Governance section, starting on page 119.

BDC management: Risk committees and functions

BDC has implemented a management governance framework to foster a collaborative risk management culture that ensures effective coordination among business units. Each committee helps BDC meet its strategic objectives while ensuring that operations are managed effectively.

The following committees and functions are key elements of this management governance framework and help ensure effective risk management throughout the Bank.

The Senior Management Committee ensures that sound risk management strategies and practices are established and respected and that an integrated, aligned vision of BDC's significant risks is in place, including plans to mitigate and assume risks when appropriate, in an effective and coordinated manner. It also, through the Disclosure Committee, oversees BDC's disclosure obligations and practices.

The Chief Risk Officer is accountable for the executive leadership and direction of BDC's risk operations, processes and systems. The Chief Risk Officer chairs the Risk Management Committee and is a member of the Senior Management Committee. The Chief Risk Officer has unfettered access to the Board Risk Committee and has the responsibility and authority to identify and address risk issues, as required.

The Risk Management Committee includes senior leaders from various business units and corporate functions. It focuses on risk oversight. As such, the committee ensures that BDC has an adequate and effective risk management framework to identify and evaluate trends in critical issues; evaluate or quantify their probable impact; and ensure BDC is mitigating them within our risk appetite.

More specifically, the committee reviews the quality and the migration of risk in the loan and securitization portfolios, and in venture capital and subordinate financing investments. It also reviews financial performance, capital adequacy and BDC's risk appetite statement.

The committee reports to the Senior Management Committee and the board on significant risks and related remediation activity.

The Operational Risk Management Committee provides executive oversight, direction and guidance on operational risk governance, and risk and control issues arising from the planning and execution of BDC's strategies. The committee is a sub-committee of the Risk Management Committee.

The Valuation Committees oversee the assessment and determination of the fair value of investment portfolios. The committees include senior leaders and an external chartered business valuator.

The Asset Liability Committee includes the Chief Financial Officer and senior leaders from various business units and corporate functions. It focuses on treasury activities and treasury risk oversight.

BDC's risk management structure comprises the following key functions:

— **credit and investment risk management**

— **enterprise risk management and compliance**, which includes operational risk management, and financial crimes and misconduct risk management

— **integrated risk management**, which includes portfolio risk management

Risk management responsibilities include the following tasks:

— ensure that BDC applies appropriate risk management principles, policies and corporate directives to manage significant and emerging risks, within our risk appetite

— develop tools to measure, monitor and report on risks

— provide timely and complete reports on risks to the Bank's risk management committees

BDC's information security and information technology (IT) teams implement and monitor infrastructure, governance, processes and activities to protect BDC's electronic information assets and supporting infrastructure against unauthorized access, use, disclosure, modification, damage or loss, while ensuring compliance with regulatory and enterprise requirements.

The internal audit department promotes sound risk management practices and protects the organization by providing reasonable assurance that the internal controls put in place by management and the Board of Directors are both adequate and effective.

Top risks

The identification of top and/or emerging risks is an integral part of BDC's corporate planning and ongoing monitoring of activities. We identify significant risks that may have an impact on the Bank's capacity to achieve its objectives. Management and the Board of Directors review and assess risks, which are monitored and remediated as part of BDC's day-to-day risk management activities.

S Strategic risk

The risk associated with sub-optimal or ineffective strategy, ineffective deployment of the chosen strategy, inaccurate knowledge of the market or a lack of responsiveness to changes in the external environment impacting BDC's ability to achieve its mandate.

S Risk from changes in the business, economic and market environment

The risk associated with volatility in the economic and market environment, which may be caused by inflation, supply chain disruptions, capital market fluctuations, and changes in the real estate market, energy prices, interest rates and other factors. Volatility in the economic and market environment may impact loans, investments and transactions.

T Cybersecurity risk

The risk associated with the intentional or unintentional exploitation of vulnerabilities or weaknesses in IT controls. This risk is heightened by an ever-evolving threat landscape and the need for constantly updated security controls.

F Portfolio volatility risk

The risk that market volatility, a global recession and/or rising interest rates will lead to higher loan defaults, pricing that is not aligned with client risk profiles, declining fair value of venture capital investments or a higher number of clients who are facing financial difficulty.

S Climate risk

The risk associated with climate change and its impact on BDC and its clients. This includes severe weather events, changing economic systems, and evolving government and societal responses that may result in a broad range of risks, including strategic, reputational, operational, structural and credit-related risks. BDC's upcoming Sustainability Report, scheduled for the fall, will allow the bank to disclose its approach to managing climate-related risk, including its environmental footprint and that of its financing portfolio.

O Reputational risk

The risk that stakeholder and client perceptions regarding BDC's mandate, practices, actions or inactions may damage its reputation and impact its ability to fulfill its mandate and conduct its business.

T Technology operations failure

The risk associated with the interruption, insufficiency or instability of technology operations.

O Third-party failure

The risk of failure or security breaches associated with the sourcing, procurement and performance of third-party suppliers or their supply chain that may result in critical service disruptions, regulatory action, financial loss, litigation or reputational damage for BDC.

T Data risk

The risk associated with deficiencies in data privacy and confidentiality, information governance, and lifecycle management.

O Human resources

The risk that labour and skill shortages will arise from competition for key resources, thus increasing operational demands for specialized skills and knowledge in a highly demanding workplace environment with large, varied and concurrent changes underway.

O Change management

The risk that the volume and velocity of change resulting from large concurrent strategic initiatives and internal priorities will impact BDC's ability to implement initiatives effectively, increase reliance on limited specialized resources, or disrupt BDC's capacity to deliver on its mandate and achieve its strategic objectives.

O Business continuity

The risk associated with people, process or system disruption due to events over which BDC has limited control, such as natural catastrophes or other crises.

F Financial crimes and misconduct

The risk associated with criminal acts or other misconduct leading to financial or property loss.

F Financial risk
T Technological risk
O Operational risk
S Strategic risk

Risk appetite framework and risk appetite statement

The risk appetite framework (RAF) defines BDC's approach to establishing and governing our risk appetite. The RAF supports the process of determining the risks we are willing to accept in fulfilling our mandate. It describes our core risk principles, which dictate that BDC will only take risks that:

— we understand and can manage, and that fit with our strategic objectives
— fulfill our mandate to support Canadian entrepreneurship
— do not risk materially harming our brand, reputation or shareholder

The risk appetite statement is based on qualitative and quantitative measures that articulate, and allow for reporting on, the board and management's vision for managing the risks BDC is willing to accept in executing our mandate. Risk limits set the boundaries for acceptable risk levels.

Enterprise-wide risk management process

The risk management framework (RMF) provides a consistent and structured approach to managing the risks inherent in BDC's activities while ensuring that the outcomes of such risk-taking activities are aligned with BDC's strategy, risk appetite and mandate. The RMF outlines the methodology used by BDC to manage risk and reinforces a risk culture throughout the organization.

BDC's Enterprise Risk Management Policy codifies the integrated, enterprise-wide process we use to identify, assess, manage, monitor and report risks. The policy is designed to ensure BDC considers risk in all business activities and makes risk management an integral part of day-to-day decision-making and the annual corporate planning process. The policy defines the roles and responsibilities of the Board of Directors and its committees, business management, functional units, and employees in implementing the policy. The Board of Directors reviews and approves the policy at least once every two years.

The foundation of an effective RMF is the use of common language and a consistent approach to identifying, assessing/measuring, managing, monitoring and reporting risks. BDC defines risk as the potential for loss or an undesirable outcome that adversely affects the achievement of the Bank's mandate and strategic objectives. BDC has established a risk inventory that defines the following risk categories:

— strategic
— credit and investment
— market and liquidity
— operational
— technology
— environmental and social
— regulatory and legal compliance
— reputational

BDC's approach to managing risk is based on four pillars of risk management.

Risk identification and assessment

Risk identification and assessment programs and processes ensure that BDC continuously identifies, understands and assesses existing and emerging risks that evolve as a result of changes in both the internal and external environments. Top and emerging risks are presented to the organization's risk management committees for assessment and discussion. Risks related to significant projects, new products or services, and policy changes are also assessed and discussed.

Risk measurement and analytics

Risks throughout the organization are quantitatively and/or qualitatively assessed with up-to-date tools or models, taking into consideration best practices in the financial services industry. This ensures they reflect BDC's policies, corporate directives, standards and tolerance limits. Board members and senior managers use this information to understand BDC's risk profile and portfolio performance.

Risk monitoring and reporting

The continuous monitoring of the potential impact of existing and emerging risks occurs in the normal course of management activities. Business lines, corporate functions, and risk management and oversight functions have established responsibilities associated with the day-to-day monitoring of their respective activities. Integrated risk management (IRM) reports provide a comprehensive quantitative and qualitative assessment of performance against the Bank's risk appetite. The evolution of the Bank's risk profile is reported through in-depth portfolio monitoring and analysis. IRM reports are communicated to senior management and the board.

Risk control and management

Business lines are responsible for ensuring that their business rules include effective and appropriate controls and that employees comply with procedures. BDC uses the following elements to mitigate risks:

— adequate and clear roles, responsibilities, processes, policies, directives and procedures
— corporate risk management functions and committees that provide oversight and monitoring
— risk mitigation activities, such as hedging, insurance risk management, business continuity planning, IT recovery planning, and anti-fraud and anti-money laundering programs
— quality reviews and audits to ensure that BDC is using appropriate risk management practices
— enterprise-wide stress tests on significant risks and portfolios to determine the appropriate level of capital necessary to withstand a sustained economic downturn and continue to fulfill BDC's mandate

Major risk categories

Strategic risk

This is the risk that we will fail to fulfill our mandate and thus put at risk our sustainability and/or existence due to ineffective strategies, ineffective strategy execution, inaccurate knowledge of the market or lack of responsiveness to changes in the external environment.

Managing strategic risk

The Senior Management Committee, which includes the CEO and leaders from the business and corporate functions, establishes BDC's strategic direction, sets corporate objectives, defines success measures, and monitors operations and performance.

BDC has a rigorous process to update its corporate strategy annually. The strategy is then approved by senior management, the board and the Government of Canada. Regular strategic reviews and risk management programs ensure alignment with the Bank's risk appetite.

BDC ensures we operate with an appropriate level of capital in accordance with the nature and level of risk taken. The internal capital adequacy assessment process evaluates capital adequacy on both a regulatory and an economic capital basis and is used to establish capital thresholds in line with the risk appetite statement. BDC allocates capital among business units based on needs and assessed risks in order to support new and existing corporate activities.

BDC also conducts stress tests on our capital levels to assess the impact of different adverse scenarios to ensure we have sufficient capital to withstand unfavourable economic conditions. BDC's stress-testing framework seeks to ensure we are adequately capitalized, given the risks we take in line with BDC's risk appetite.

Please refer to Note 17—*Capital management* to the Consolidated Financial Statements for additional information on BDC's capital management and adequacy.

Financial risks

BDC has identified three major categories of financial risk: credit risk, market risk and liquidity risk. Note 18—*Risk management* to the Consolidated Financial Statements details BDC's financial risk management policies and measurements.

Credit risk

This is the risk of loss if a counterparty to a transaction fails to meet contractual commitments or obligations.

Managing credit risk

All credit and investment decisions must comply with established policies, directives, guidelines, business rules and risk assessment tools used to help make these decisions. Managing credit risk is the responsibility of several levels of employees—from those who deal directly with clients to authorizing officers. Specific authorities are delegated to positions commensurate with their function and the level of credit knowledge and judgement that employees holding that position are required to possess.

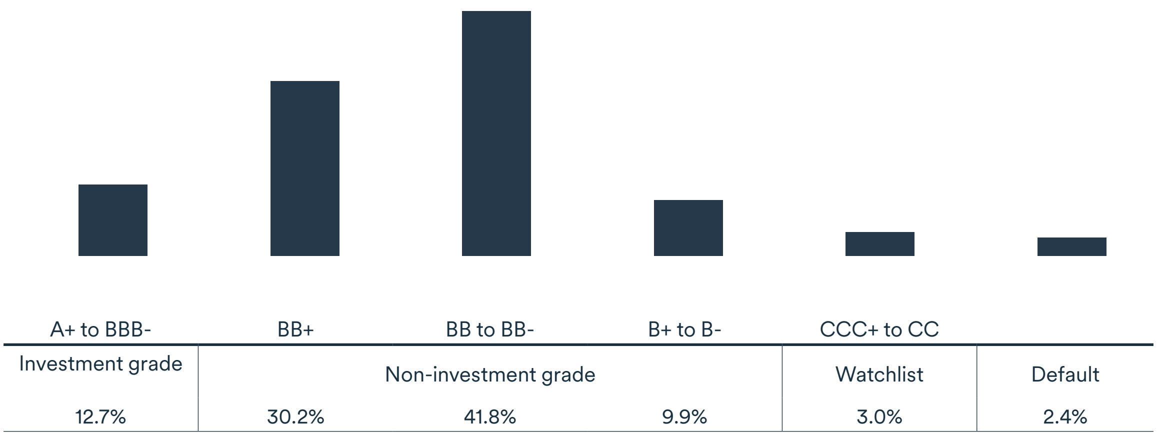
Our adjudication process includes assigning a borrower rating that reflects our estimate of the probability of default (PD) over the life of a loan. PD estimates are determined using internal risk classifications and scoring systems that take into consideration quantitative and qualitative criteria. These criteria include an assessment of the borrower's financial strength, management quality, financial flexibility and competitive strength. A score from a quantitative model can be modified in some cases on the basis of expert judgement, as prescribed by our credit policies. Our internal risk classifications are also used for portfolio risk management, risk limit setting, product pricing and the determination of economic capital.

The table below matches our internal ratings to ratings used by external ratings agencies.

BDC loans portfolio credit risk exposure

BDC rating	Grade	S&P equivalent	F2023—March 31, 2023
0.5 to 1.0	Investment grade	A+ to BBB-	12.7%
1.5 to 2.0		BB+	30.2%
2.5 to 4.0	Non-investment grade	BB to BB-	41.8%
4.5 to 5.0		B+ to B-	9.9%
5.5	Watchlist	CCC+ to CC	3.0%
6	Default		2.4%
			100%

BDC's loan portfolio, classified by credit risk exposure
as at March 31, 2023 (as a percentage of gross financing portfolio)



While BDC follows leading risk management practices, we generally assume more risk than a typical financial institution, due to our mandate and corresponding risk appetite. As a result, a large portion of BDC's portfolio is non-investment grade. Please refer to Note 10—*Loans* to the Consolidated Financial Statements for further information on loans outstanding, by grade equivalent.

The most common method used to mitigate credit risk at the transaction level is to obtain high-quality collateral from borrowers. While collateral cannot replace a rigorous assessment of a borrower's ability to meet his or her obligations to us, it is an important complement. Collateral is not required in all cases; it depends on the type of loan granted. Please refer to Note 10—*Loans* to the Consolidated Financial Statements for further information about principal collateral pledged as security and our level of security coverage.

In addition to managing credit risk on an individual transaction basis, BDC manages it on a portfolio level. Through monitoring, analysis and risk reports, portfolio risk management ensures that the overall risk in the portfolio is well diversified and consistent with fulfilling our mandate while achieving our financial objectives, in line with our risk appetite.

Market risk

This is the risk of financial loss that may arise from developments in the marketplace or from our inability to forecast poor economic conditions quickly enough to mitigate losses in our portfolio. It represents the market value fluctuations of BDC's assets and liabilities arising from volatility in interest rates, equity markets and foreign currency levels. For BDC, market risk also arises from volatile and unpredictable market events affecting the value of investments of Venture Capital, the Capital Incentive Programs and the Cleantech Practice.

Market non-trading risk is the risk of loss in financial instruments, financial position or net income, or the risk in non-trading activities, such as asset liability management or hedging, due to market factors, including fluctuations in interest rates, foreign exchange rates, or the price of equities or commodities.

Managing market risk

BDC applies a sound asset/liability framework in our funding strategy and uses derivatives to manage and mitigate exposure to fluctuations in equity markets, foreign currencies and interest rates.

Liquidity risk

This is the risk of being unable to obtain or convert BDC's assets into cash for the purpose of servicing and refinancing debt for the timely disbursement of committed loans and/or for the payment of operating expenses and dividends.

Managing liquidity risk

To avoid any business disruptions, BDC ensures that the minimum required level of cash is invested in highly liquid, high-quality securities that can be sold to a wide range of counterparties in active secondary markets without incurring a substantial loss.

Operational risk

Operational risk is the risk of loss from inadequate or failed internal processes, people and systems, or from events beyond BDC's control, such as natural disasters. It is pervasive in all business activities, including our practices for managing other risks, such as strategic, credit, market and liquidity, technology, regulatory and compliance, and environmental and social risk.

Managing operational risk

Operational risk is inherent in all our activities and operations at BDC. As such, BDC strives to identify, analyze, manage, monitor and report these risks in line with our enterprise risk management framework and relevant directives. These policies and directives govern the way we manage our people, processes and internal/external environment.

BDC has implemented the following mitigation practices for managing key operational risks.

- Business continuity management and incident management: BDC has tools and processes to manage adverse incidents and minimize interruptions to business operations as set out in our business continuity plans.
- Insurance: BDC protects our financial interests by purchasing insurance against unfavourable insurable events.
- Human resources management: BDC's long-term success depends largely on our capacity to attract, retain and develop skilled employees and to create a healthy, professional and collaborative environment that encourages them to contribute fully to BDC's mission of helping Canadian entrepreneurs succeed. We achieve this through:
  - BDC's Code of Conduct, Ethics and Core Values
  - human capital strategies and plans, including effective hiring practices, organizational design and compensation
  - training and other professional development programs to foster engagement and prepare employees to achieve their full potential
  - diversity, equity and inclusion practices
- Procurement and contracting processes: BDC follows sound principles and practices in the procurement and contracting of goods and services and the management of external suppliers. BDC maintains a broad range of third-party risk management programs and activities to mitigate supplier risks. These include an effective governance framework, and transparent and disciplined processes for performing due diligence and risk assessment oversight on our relationships with third parties.
- Project management: The BDC Prioritization Committee (BPC) and Enterprise Project Management Office (EPMO) provide project management leadership, expertise and experience to the organization. The BPC is the senior-level committee responsible for the approval and the prioritization of initiatives at BDC. The EPMO also provides executive management with an overall strategic view of all BDC projects for prioritization and effective decision-making. This ensures projects are aligned with corporate objectives and the organizational capacity to deliver them.
- Fraud management: BDC has a fraud management and misconduct program to prevent and detect illicit activity.
- Model risk management: BDC manages and mitigates model risk by reviewing, validating, and approving new and existing models.

Technology risk

Technology risks are omnipresent in the daily operations of BDC. The potential severity of technology failures and cyber-security threats continues to increase as our reliance on technology, systems and data grows, and as we become increasingly interconnected with third parties.

Organizations, including financial institutions, are exposed to a large and growing array of internal and external threats. Hybrid work environments and remote work heighten our exposure to technology risk.

Additionally, BDC has embarked on a significant transformation of our digital operations, including an enhancement of our IT infrastructure and data management systems. Digital transformations necessarily introduce new technology risks. The continuous identification and mitigation of these risks is a high priority for management.

Therefore, the need to identify, analyze, manage, monitor and report technology risks is included in numerous policies and directives. These policies and directives govern the way BDC manages systems and infrastructure, cyber-security, information security and data integrity.

Managing technology risk

BDC strives to ensure the protection of our systems and of our client and corporate data. We continuously invest in our technology infrastructure to safeguard our systems and data while advancing our business goals. Risk mitigation efforts include 24/7 detection and response capabilities, in partnership with leading security firms; the ongoing rollout of tools to monitor and prevent data loss; system and network controls; programs to foster employee awareness of threats; and ongoing independent testing of infrastructure, systems and applications.

In addition, we have established a training program to improve incident responses by our IT cyber-security/operations specialists. We manage technology incidents and work to minimize interruptions to business operations through our IT disaster recovery plan and IT incident management processes.

Legal and regulatory risk

This is the risk associated with a failure to meet BDC's obligations as required by the laws, rules, regulations and prescribed practices in the jurisdictions in which we operate.

Managing legal and regulatory risk

BDC's Compliance, Legal Affairs and Corporate Secretariat ensure employees comply with legal and regulatory requirements through the regulatory compliance framework. In addition, Legal Affairs is responsible for managing all litigation involving BDC. It provides the Audit and Conduct Committee with the information it needs to ensure compliance with laws and regulations and oversees management of legal and regulatory risks.

Reputational risk

This is the risk that stakeholder perceptions regarding BDC's mandate, practices, actions or inaction will damage our reputation and affect our ability to fulfill our mandate and conduct our business.

BDC must meet Canadians' expectations in various ways, including the following:

- meet the shareholder's expectation that BDC will support entrepreneurship
- carry out our mandate effectively
- meet legal and broadly held ethical standards
- refuse to support clients who fail to meet societal expectations of responsible behaviour
- do business in an environmentally responsible manner

Managing reputational risk

BDC's risk management framework is the cornerstone of managing reputational risk. Reputational risk management is part of our corporate risk policies and corporate directives and is embedded in all elements of our business activities.

BDC has monitoring tools and processes in place to track topics of interest in social and traditional media.

BDC considers reputational risk when assessing potential loans or investments. We screen potential clients and complete due diligence on potential transactions. We also ensure clients meet requirements related to transparency and disclosure, environmental performance, ethics, and credit eligibility.

Environmental and social risk

This is the risk that environmental or social issues associated with BDC, or with a client, supplier, transaction, product or activity, may give rise to financial, operational or reputational loss. Environmental risks could impact air, land, water and groundwater.

Climate change risks are a type of environmental risk and could be in the form of physical or transition risks. Physical risks arise from the physical impacts associated with a change in climate. These may include severe weather events (e.g., floods, hurricanes, extreme cold or heat), as well as the impacts of long-term changes in the climate (e.g., rising sea levels, higher average temperatures, drier conditions). Transition risks are driven by societal changes that are occurring to mitigate climate change; policy/regulatory actions, such as subsidies, taxes or increased fuel costs; innovation and changes in technologies; and changing market conditions.

Many Canadian entrepreneurs—including BDC clients and partners—are directly or indirectly vulnerable to physical and/or transition risks related to climate change.

We are seeing structural adjustments in the global economy, such as climate-related standards in supply chains. We believe climate change risk management will become a business-as-usual approach and will be embedded in everyday decisions. In the financial sector, this transition has already begun.

In line with this trend, BDC is progressively shifting our management of climate risk to accommodate the necessary operational, strategic, regulatory and legal considerations.

For BDC, social risk has both direct and indirect dimensions. Direct risks would stem from failing to effectively fulfill our mandate of supporting entrepreneurs. Indirect risks would stem from financing clients or collaborating with partners whose behaviours contravene accepted norms of responsible corporate behaviour, such as discriminating against individuals or groups.

Managing environmental and social risk

Using a risk-based approach, BDC obtains environmental site assessments on financed properties. BDC incorporates the consideration of environmental issues associated with its loan applicants and transactions into its lending practices, as appropriate.

Climate-related risks are no longer emerging risks for Canada, BDC and entrepreneurs; they are a current reality. Therefore, climate considerations are being integrated into BDC's strategy, risk management framework, corporate governance, product considerations and operational activities.

BDC's strategy to address climate-related risk is aligned with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). Like our peers, we are using the roadmap created by the TCFD's core principles and guidelines for governance, strategy, risk management, and metrics and targets. We will report progress to our Board of Directors, which oversees senior management's implementation of new policies and practices.

Social risk management is embedded in the day-to-day activities of the Bank and the products and services we provide to entrepreneurs. In addition, we establish internal risk management programs to ensure that employees, suppliers and clients adhere to conduct aligned with our mandate and sustainability objectives.

5. Accounting and Control Matters

Significant accounting policies

BDC's significant accounting policies are described in Note 3—*Significant accounting policies* to the Consolidated Financial Statements. Certain of these policies, as well as estimates and assumptions made in applying such policies, are considered critical, as they require significant judgments by management. BDC has established control procedures, including formal representations and certification by senior officers, to ensure that accounting policies, estimates and assumptions are reviewed and applied consistently from period to period.

Judgments, estimates and assumptions

BDC's significant accounting judgments, estimates and assumptions are described in Note 5—*Significant accounting judgments, estimates and assumptions* to the Consolidated Financial Statements. Critical accounting estimates that have the most significant effect on the amounts recognized in the Consolidated Financial Statements include those related to the allowance for expected credit losses, fair value of financial instruments, consolidation, defined benefit pension plans and other post-employment benefits.

Controls and procedures

Management is responsible for establishing and maintaining adequate internal control over financial reporting as well as appropriate disclosure controls and procedures.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. However, because of its inherent limitations, internal control over financial reporting can only provide reasonable assurance and may not prevent or detect misstatements.

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management on a timely basis so that BDC can make appropriate decisions about public disclosure.

BDC has a certification regime to evaluate the design and effectiveness of our internal control over financial reporting and our disclosure controls and procedures. The evaluation of the design and effectiveness of internal control over financial reporting was performed using the *Internal control – Integrated Framework 2013* issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO).

BDC has reached the following conclusion regarding the design and effectiveness of internal control over financial reporting :
As of March 31, 2023, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, management evaluated the design and effectiveness of internal control over financial reporting. Based on the results of the evaluation, they concluded that internal control over financial reporting is adequately designed and operates effectively to provide reasonable assurance about the reliability of financial reporting and of financial statements prepared in accordance with IFRS.

BDC has reached the following conclusion regarding the design and effectiveness of disclosure controls and procedures:
As of March 31, 2023, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, management evaluated the design and effectiveness of disclosure controls and procedures. Based on the results of the evaluation, they concluded that disclosure controls and procedures are adequately designed and operate effectively to provide reasonable assurance that material information disclosed is recorded, processed, summarized and presented within the requested timeframe, and that it is communicated to management on a timely basis for decision-making purposes.

Consolidated Financial Statements

Management's Responsibility for Financial Information

The Consolidated Financial Statements of the Business Development Bank of Canada (BDC) were prepared and presented by management in accordance with International Financial Reporting Standards. The information contained therein normally includes amounts requiring estimations that have been made based upon informed judgment as to the expected results of current transactions and events. The financial information presented elsewhere in this Annual Report is consistent with the Consolidated Financial Statements.

In discharging its responsibility for the integrity, fairness and quality of the Consolidated Financial Statements and for the accounting systems from which they are derived, management maintains a system of internal control designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. BDC has a certification regime to evaluate the design and effectiveness of its internal control over financial reporting and its disclosure controls and procedures. This certification regime is based on the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Refer to the Management's Discussion and Analysis section of the annual report for additional information (p. 44).

The system of internal controls is supported by internal audit staff members who conduct periodic reviews of different aspects of BDC's operations. In addition, the Chief Audit Executive, and the External Auditors have full and free access to the Audit and Conduct Committee of the Board of Directors, which is responsible for overseeing and reviewing management's internal control and reporting responsibilities. The Board of Directors, through the Audit and Conduct Committee, which is entirely composed of independent directors, is responsible for reviewing and approving the audited annual Consolidated Financial Statements.

BDC's independent auditors, KPMG LLP, Chartered Professional Accountants, and the Auditor General of Canada have audited BDC's Consolidated Financial Statements and their report indicates the scope of their audit and their opinion on the Consolidated Financial Statements.

Isabelle Hudon
President and Chief Executive Officer

Stefano Lucarelli, CPA
Chief Financial Officer

Montreal, Canada
June 14, 2023

Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

KPMG

Independent Auditors' Report

To the Minister of International Trade

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of the Business Development Bank of Canada (BDC), which comprise the consolidated statement of financial position as at 31 March 2023, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of BDC as at 31 March 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of BDC in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information
Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the annual report prior to the date of the auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing BDC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate BDC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing BDC's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of BDC's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on BDC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause BDC to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion
In conjunction with the audit of the consolidated financial statements, we have audited transactions of the Business Development Bank of Canada and its wholly-owned subsidiary coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act*, the charter and by laws of the Business Development Bank of Canada and its wholly-owned subsidiary, and the directives issued pursuant to section 89 of the *Financial Administration Act*.

In our opinion, the transactions of the Business Development Bank of Canada and its wholly-owned subsidiary that came to our notice during the audit of the consolidated financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities
Management is responsible for the Business Development Bank of Canada and its wholly-owned subsidiary's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Business Development Bank of Canada and its wholly-owned subsidiary to comply with the specified authorities.

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities
Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the consolidated financial statements are in compliance with the specified authorities referred to above.

KPMG LLP*

Tina Swiderski, CPA auditor

*CPA auditor, public accountancy permit No. A120220

Principal
for the Auditor General of Canada

Montréal, Canada
14 June 2023

Consolidated Statement of Financial Position

(in thousands of Canadian dollars)

	Note	**March 31, 2023**	March 31, 2022
Assets			
Cash and cash equivalents	7	**878,919**	906,386
Derivative assets	8	**11,603**	12,277
Asset-backed securities	9, 23	**1,176,100**	988,466
Loans			
Loans, gross carrying amount	10	**36,976,742**	34,394,759
Less: allowance for expected credit losses	10	**(1,044,039)**	(1,111,242)
Loans, net of allowance for expected credit losses		**35,932,703**	33,283,517
Investments	11, 23	**5,742,512**	5,862,554
Property and equipment		**66,140**	68,745
Intangible assets		**47,646**	39,727
Right-of-use assets	12	**98,780**	108,859
Net defined benefit asset	15	**260,466**	233,690
Other assets		**70,053**	62,775
Total assets		**44,284,922**	41,566,996
Liabilities and equity			
Liabilities			
Accounts payable, accrued and other liabilities	13	**320,173**	311,267
Derivative liabilities	8	**117**	110
Borrowings			
Short-term notes	14	**19,767,097**	14,385,629
Long-term notes	14	**7,157,814**	5,707,297
Total borrowings		**26,924,911**	20,092,926
Lease liabilities			
Short-term lease liabilities	12	**14,705**	13,962
Long-term lease liabilities	12	**101,458**	111,362
Total lease liabilities		**116,163**	125,324
Net defined benefit liability	15	**224,313**	233,118
Expected credit losses on loan commitments and guarantees	10, 21	**554,344**	315,778
Total liabilities		**28,140,021**	21,078,523
Equity			
Share capital	16	**7,289,900**	11,946,900
Contributed surplus		**27,778**	27,778
Retained earnings		**8,850,687**	8,445,369
Accumulated other comprehensive income (loss)		**(29,590)**	(15,864)
Equity attributable to BDC's shareholder		**16,138,775**	20,404,183
Non-controlling interests		**6,126**	84,290
Total equity		**16,144,901**	20,488,473
Total liabilities and equity		**44,284,922**	41,566,996

Guarantees and contingent liabilities (Note 21)

Commitments (Notes 9, 10, 11 and 12)

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

Brian O'Neil
Director
Chairperson, Audit and Conduct Committee

Isabelle Hudon
Director
President and Chief Executive Officer

Consolidated Statement of Income

For the year ended March 31 (in thousands of Canadian dollars)

	2023	2022
Interest income	**2,420,608**	1,694,417
Interest expense	**491,877**	105,871
Net interest income	**1,928,731**	1,588,546
Net realized gains (losses) on investments	**16,700**	576,019
Revenue from Advisory Services	**38,249**	28,865
Fee and other income	**100,294**	107,725
Net revenue	**2,083,974**	2,301,155
Provision for expected credit losses	**(343,940)**	84,681
Net change in unrealized appreciation (depreciation) of investments	**(830,289)**	915,722
Net foreign exchange gains (losses)	**163,469**	(12,565)
Net gains (losses) on other financial instruments	**(4,519)**	622
Income before operating and administrative expenses	**1,068,695**	3,289,615
Salaries and benefits	**498,952**	544,832
Premises and equipment	**43,553**	42,169
Other expenses	**223,648**	187,852
Operating and administrative expenses	**766,153**	774,853
Net income	**302,542**	2,514,762
Net income (loss) attributable to:		
BDC's shareholder	**380,732**	2,440,048
Non-controlling interests	**(78,190)**	74,714
Net income	**302,542**	2,514,762

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

Note 19 provides additional information on the Consolidated Statement of Income, including interest income on financial assets measured at amortized cost and at fair value through other comprehensive income calculated using the effective interest rate method.

Note 20 provides segmented information.

Consolidated Statement of Comprehensive Income

For the year ended March 31 (in thousands of Canadian dollars)

	Note	2023	2022
Net income		**302,542**	2,514,762
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		**(12,198)**	(28,754)
Reclassification to net income of losses (gains) on cash flow hedges		**(1,528)**	(698)
Total items that may be reclassified subsequently to net income		**(13,726)**	(29,452)
Items that will not be reclassified to net income			
Remeasurements of net defined benefit asset or liability	15	**24,586**	289,492
Other comprehensive income (loss)		**10,860**	260,040
Total comprehensive income		**313,402**	2,774,802
Total comprehensive income (loss) attributable to:			
BDC's shareholder		**391,592**	2,700,088
Non-controlling interests		**(78,190)**	74,714
Total comprehensive income		**313,402**	2,774,802

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

Consolidated Statement of Changes in Equity

For the year ended March 31 (in thousands of Canadian dollars)

					Accumulated other comprehensive income (loss)					
	Note	Share capital	Contributed surplus	Retained earnings	FVOCI assets[1]	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at March 31, 2022		**11,946,900**	**27,778**	**8,445,369**	**(17,392)**	**1,528**	**(15,864)**	**20,404,183**	**84,290**	**20,488,473**
Total comprehensive income (loss)										
Net income (loss)				**380,732**				**380,732**	**(78,190)**	**302,542**
Other comprehensive income (loss)										
Net change in unrealized gains (losses) on fair value through other comprehensive income assets					**(12,198)**		**(12,198)**	**(12,198)**		**(12,198)**
Reclassification to net income of losses (gains) on cash flow hedges						**(1,528)**	**(1,528)**	**(1,528)**		**(1,528)**
Remeasurements of net defined benefit asset or liability	15			**24,586**				**24,586**		**24,586**
Other comprehensive income (loss)		**–**	**–**	**24,586**	**(12,198)**	**(1,528)**	**(13,726)**	**10,860**	**–**	**10,860**
Total comprehensive income (loss)		**–**	**–**	**405,318**	**(12,198)**	**(1,528)**	**(13,726)**	**391,592**	**(78,190)**	**313,402**
Capital injections from non-controlling interests									**26**	**26**
Issuance of common shares	16	**343,000**						**343,000**		**343,000**
Repurchase of common shares	16	**(5,000,000)**						**(5,000,000)**		**(5,000,000)**
Transactions with owner, recorded directly in equity		**(4,657,000)**	**–**	**–**	**–**	**–**	**–**	**(4,657,000)**	**26**	**(4,656,974)**
Balance as at March 31, 2023		**7,289,900**	**27,778**	**8,850,687**	**(29,590)**	**–**	**(29,590)**	**16,138,775**	**6,126**	**16,144,901**

(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 (continued)

For the year ended March 31 (in thousands of Canadian dollars)

	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) FVOCI assets[1]	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at March 31, 2021		11,511,900	27,778	6,450,829	11,362	2,226	13,588	18,004,095	13,262	18,017,357
Total comprehensive income (loss)										
Net income				2,440,048				2,440,048	74,714	2,514,762
Other comprehensive income (loss)										
Net change in unrealized gains (losses) on fair value through other comprehensive income assets					(28,754)		(28,754)	(28,754)		(28,754)
Reclassification to net income of losses (gains) on cash flow hedges						(698)	(698)	(698)		(698)
Remeasurements of net defined benefit asset or liability	15			289,492				289,492		289,492
Other comprehensive income (loss)		–	–	289,492	(28,754)	(698)	(29,452)	260,040	–	260,040
Total comprehensive income (loss)		–	–	2,729,540	(28,754)	(698)	(29,452)	2,700,088	74,714	2,774,802
Dividends on common shares	16			(735,000)				(735,000)		(735,000)
Distributions to non-controlling interests									(5,027)	(5,027)
Capital injections from non-controlling interests									1,341	1,341
Issuance of common shares	16	435,000						435,000		435,000
Transactions with owner, recorded directly in equity		435,000	–	(735,000)	–	–	–	(300,000)	(3,686)	(303,686)
Balance as at March 31, 2022		11,946,900	27,778	8,445,369	(17,392)	1,528	(15,864)	20,404,183	84,290	20,488,473

(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

For the year ended March 31 (in thousands of Canadian dollars)

	Note	2023	2022
Operating activities			
Net income		**302,542**	2,514,762
Adjustments to determine net cash flows			
Interest income		**(2,420,608)**	(1,694,417)
Interest expense		**490,080**	104,113
Interest on lease liabilities		**1,797**	1,758
Net realized losses (gains) on investments		**(16,700)**	(576,019)
Provision for expected credit losses		**343,940**	(84,681)
Net change in unrealized depreciation (appreciation) of investments		**830,289**	(915,722)
Net unrealized foreign exchange losses (gains)		**(202,411)**	(3,354)
Net unrealized losses (gains) on other financial instruments		**–**	(76)
Defined benefits funding below (in excess of) amounts expensed	15	**(10,995)**	15,735
Depreciation of property and equipment, and amortization of intangible assets		**20,246**	20,496
Depreciation of right-of-use assets	12	**13,532**	13,931
Loss (gain) on derecognition of property and equipment and intangible assets		**644**	186
Other		**(71,402)**	(20,479)
Interest expense paid		**(450,706)**	(102,602)
Interest income received		**2,323,689**	1,646,008
Changes in operating assets and liabilities			
Net change in loans		**(2,559,749)**	(2,022,139)
Net change in accounts payable, accrued and other liabilities		**8,906**	72,459
Net change in other assets		**(7,278)**	(27,073)
Net cash flows provided (used) by operating activities		**(1,404,184)**	(1,057,114)
Investing activities			
Disbursements for asset-backed securities		**(672,979)**	(698,444)
Repayments and proceeds on sale of asset-backed securities		**474,006**	414,243
Disbursement for investments	23	**(1,012,443)**	(1,143,021)
Repayments of investments	23	**365,315**	620,556
Proceeds on sale of investments	23	**126,907**	582,050
Acquisition of property and equipment		**(10,560)**	(8,351)
Acquisition of intangible assets		**(15,644)**	(7,969)
Net cash flows provided (used) by investing activities		**(745,398)**	(240,936)
Financing activities			
Net change in short-term notes	14	**5,352,500**	1,048,000
Issue of long-term notes	14	**2,675,000**	1,223,000
Repayment of long-term notes	14	**(1,234,000)**	(549,139)
Distributions to non-controlling interests		**–**	(5,027)
Capital injections from non-controlling interests		**26**	1,341
Issuance of common shares	16	**343,000**	435,000
Repurchase of common shares	16	**(5,000,000)**	–
Dividends paid on common shares	16	**–**	(735,000)
Payment of lease liabilities		**(14,411)**	(14,254)
Net cash flows provided (used) by financing activities		**2,122,115**	1,403,921
Net increase (decrease) in cash and cash equivalents		**(27,467)**	105,871
Cash and cash equivalents at beginning of year		**906,386**	800,515
Cash and cash equivalents at end of year		**878,919**	906,386

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

Notes to the Consolidated Financial Statements

For the year ended March 31, 2023 (in thousands of Canadian dollars)

1.

Act of incorporation, objectives and operations of the Corporation

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 Corporation's head office is located at 5 Place Ville Marie, Suite 100, Montreal, Quebec, 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. To finance its objectives, BDC borrows funds from His Majesty the King in Right of Canada acting through the Minister of Finance. Prior to April 21, 2008, BDC issued debt instruments, which were secured by the Government of Canada. The *Business Development Bank of Canada Act* (BDC Act) also allows the use of hybrid capital instruments to provide the capital required for its operations. His Majesty the King in Right of Canada would not be liable for payment of amounts owing under such capital instruments, none of which were outstanding as at March 31, 2023, and March 31, 2022.

BDC is for all purposes an agent of His Majesty the King in Right of Canada. BDC is also named in Part I of Schedule III to the *Financial Administration Act* (FAA) and is accountable for its affairs to Parliament through the Minister of International Trade, Export Promotion, Small Business and Economic Development.

Pursuant to section 89 of the FAA, BDC, together with a number of other Crown corporations, has to comply with a directive issued in 2008 to ensure that Crown corporations give due consideration to the personal integrity of those they lend to or provide benefits to, in accordance with the government's policy to improve the accountability and integrity of federal institutions. In fiscal 2009, BDC completed the implementation of this directive and confirms that it has been met since then.

Pursuant to section 89 of the FAA, BDC received a directive in December 2014 from the Governor General in Council (P.C. 2014-1378) requesting that BDC review its current pension plan and ensure that it remains affordable, financially sustainable and consistent with the terms of the Public Service Pension Plan. These changes were intended to ensure that pension plans of Crown corporations provide a 50:50 current service cost-sharing ratio between employee and employer for pension contributions by December 31, 2017, as well as to raise the normal age of retirement to 65 years for employees hired on or after January 1, 2015. Consequently, to comply with the directive, BDC implemented modifications to its existing defined benefit pension plan effective January 1, 2015. Eligible employees hired before January 1, 2015, had a choice of three options: two options included some features of the old plan design and a third option offered a completely new benefit structure. Employees hired after December 31, 2014, are automatically enrolled in the third option. In addition, BDC gradually increased the employee's contribution level, allowing it to achieve a 50:50 current service cost sharing by December 31, 2017 and approved a funding policy with mechanisms to ensure BDC's cash contributions, for current service cost only, would not exceed members' required contributions, on a cumulative basis while complying with regulations. BDC completed the implementation of both elements of its strategy by December 31, 2017. As at December 31, 2022, BDC reached a level of employer contribution that, although not exactly 50:50, only slightly exceeded 50% of the current service cost on a cumulative basis, and the plan is administered in accordance with regulations and its funding policy. BDC met with representatives from the Treasury Board Secretariat of Canada (TBS) in May 2019 and agreed to report annually on its current service cost sharing ratio over the next 5 years. This will enable TBS and BDC to monitor the situation and assess whether further actions are required at the end of fiscal 2025.

Pursuant to section 89 of the FAA, BDC received a directive in July 2015 from the Governor General in Council (P.C. 2015-1109) requiring that BDC align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations. Consequently, BDC implemented modifications to its Business Expenses Policy and Corporate Directive and confirms that it complies with this directive since then. The Business Expenses Policy can be found on BDC's website.

2. Basis of preparation

Statement of compliance

BDC has prepared its Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These Consolidated Financial Statements were approved for issue by the Board of Directors on June 14, 2023.

Basis of presentation and measurement

The Consolidated Financial Statements have been prepared on a historical cost basis, except for the following:

— financial assets and financial liabilities measured at fair value through profit or loss (FVTPL), financial assets measured at fair value through other comprehensive income (FVOCI), and derivative financial instruments measured at fair value; and

— the net defined benefit asset or liability in respect of post-employment benefits has been recognized as the present value of the defined benefit obligation less the fair value of plan assets.

These Consolidated Financial Statements are presented in Canadian dollars, which is BDC's functional currency as well as the functional currency of its subsidiaries. Unless otherwise specified, the figures presented in the Consolidated Financial Statements are stated in thousands of Canadian dollars.

Basis of consolidation

BDC conducts business through a variety of entities, including a wholly owned subsidiary, and two investment funds that are considered to be subsidiaries for financial reporting purposes.

The Consolidated Financial Statements of BDC comprise the financial statements of the parent entity and the consolidated financial statements of the subsidiaries referred to below as at March 31, 2023, and March 31, 2022. The financial statements of the subsidiaries are prepared using uniform accounting policies and valuation methods for similar transactions.

Subsidiaries

For financial reporting purposes, subsidiaries are defined as entities controlled by another entity. BDC controls an entity when it has power over the investee; it is exposed to, or has rights to, variable returns from its involvement with the entity; and it has the ability to affect those returns through its power over the entity. Control is presumed when BDC directly or indirectly holds the majority of the voting rights. The existence and effect of potential voting rights are considered when assessing whether BDC controls another entity.

In instances where BDC does not hold a majority of the voting rights, further analysis is performed to determine whether or not BDC has control of the entity. BDC is deemed to have control when, according to the terms of the shareholder's and/or limited partnership agreements, it makes most of the decisions affecting relevant activities.

Subsidiaries are fully consolidated from the date that control begins until the date that control ceases. No subsidiary has been acquired or disposed of during the reporting periods. Intercompany transactions and balances are eliminated upon consolidation.

2. Basis of preparation (continued)

Subsidiaries (continued)

The following operating entities have been consolidated in BDC's Consolidated Financial Statements.

Entity	Principal activity	Country of incorporation and residence	Proportion of ownership and voting power held	Basis of control
BDC Capital Inc.	Holding company structure for investment activities	Canada	100%	Voting power
AlterInvest II Fund L.P.	Direct equity investments	Canada	50%	Voting power and contractual agreements
Go Capital L.P.	Direct equity investments	Canada	20%	Contractual agreements

AlterInvest II Fund L.P.

BDC owns 50% of AlterInvest II Fund L.P. and acts as the general partner for this entity, thus having the ability to direct all relevant activities and power to affect the variable returns to which BDC is exposed.

Go Capital L.P.

Although BDC owns less than half of Go Capital L.P. and holds less than half of the voting power, management has determined, based on the terms of the agreement under which Go Capital L.P. was established, that BDC controls this entity. As the general partner, BDC has the current ability to direct the relevant activities of Go Capital L.P. and has the power to affect the variable returns, to which BDC is exposed.

Go Capital L.P.'s year-end date is December 31, as agreed upon by the partners at the time this entity was established. Consequently, additional financial information regarding this entity is prepared for the interim period for the purposes of consolidation.

Non-controlling interests

Interests in the equity of subsidiaries not attributable to the parent entity are reported in consolidated equity as non-controlling interests. Net income and each component of other comprehensive income (loss) are attributed to BDC's shareholder and to non-controlling interests in accordance with their respective shareholdings, even if this results in the non-controlling interests having a deficit balance.

Associates

Associates are those entities in which BDC has significant influence, but not control, over the financial and operating policies. Debt investments and equity investments in associates that are held as part of BDC's investment portfolio by BDC Capital Inc. are carried in the Consolidated Statement of Financial Position at fair value. This treatment is permitted by International Accounting Standard (IAS) 28, *Investments in Associates*, under which an entity that is a venture capital organization or other similar entity that holds investments in an associate may elect to measure these investments at fair value through profit or loss in accordance with IFRS 9, *Financial Instruments*.

3.
Significant accounting policies

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all periods presented in these Consolidated Financial Statements and have been applied consistently by all entities consolidated by BDC.

Financial instruments

Recognition, derecognition and measurement of financial instruments

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

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

Financial instruments are recognized and derecognized using settlement date accounting.

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

Classification of financial instruments

Financial assets

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

— amortized cost;

— FVTPL; or

— FVOCI.

Business model assessment

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

— Financial assets held solely to collect contractual cash flows;

— Financial assets held to both collect contractual cash flows and sell the assets;

— Financial assets that are managed on a fair value basis.

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

— the investment strategy for holding or selling the assets in the portfolio and the risks that affect the performance of the business model;

— the reports provided to BDC's management and key indicators used to assess the performance of the portfolio;

— the portfolio managers' compensation (i.e., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected);

— the frequency, volume and timing of sales in prior periods, the reasons for such sales and the expectations about future sales activity.

3. Significant accounting policies (continued)

Financial instruments (continued)

Classification of financial instruments (continued)

Financial assets (continued)

Business model assessment (continued)

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

— the asset is held within a business model whose objective is to hold assets to collect contractual cash flows;

— the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

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

— the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;

— the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

All other financial assets are classified as measured at FVTPL.

On initial recognition, BDC may irrevocably designate a financial asset that meets the requirements to be measured at amortized cost or at FVOCI, to be measured as at FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis.

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

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

— contingent events that change the amount and timing of cash flows;

— leveraged features;

— prepayment and extension terms;

— terms that limit BDC's claim to cash flows from specified assets;

— features that modify consideration of the time value of money.

Financial liabilities

BDC classifies its financial liabilities at amortized cost unless it has designated liabilities at FVTPL or is required to measure liabilities at FVTPL. BDC designates a financial liability as measured at FVTPL on initial recognition when it eliminates an accounting mismatch that would otherwise arise from measuring assets or liabilities on a different basis or when the liability contains an embedded derivative that is separable and significantly modifies the cash flows that would otherwise be required under the contract.

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

Subsequent measurement of financial instruments

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

Financial instruments classified at amortized cost

Subsequent to initial recognition, financial assets and liabilities classified in this category are measured at amortized cost using the effective interest rate method, net of an allowance for expected credit losses in the case of financial assets. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to its carrying amount. When calculating the effective interest rate, BDC estimates future cash flows, considering all contractual terms of the financial instrument.

3. Significant accounting policies (continued)

Financial instruments (continued)

Subsequent measurement of financial instruments (continued)

Financial instruments classified at fair value through profit or loss

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

— net change in unrealized appreciation or depreciation of investments, or net foreign exchange gains or losses, when related to asset-backed securities, debt, and equity investments; or

— net gains or losses on other financial instruments when related to derivatives.

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

— net realized gains or losses on investments when related to asset-backed securities, debt and equity investments; or

— net gains or losses on other financial instruments when related to derivatives.

Financial instruments classified at fair value through other comprehensive income

Subsequent to initial recognition, financial instruments measured as at FVOCI are measured at fair value, with unrealized gains and losses recorded in Other Comprehensive Income (Loss) (OCI) until the asset is derecognized, with the exception that the IFRS 9 impairment model applies to these instruments, and the provision for expected credit losses is recorded in the Consolidated Statement of Income.

Cash flow hedges

BDC elected to de-designate the hedging instruments effective on the last day of fiscal 2018. The amounts recognized in other comprehensive income (loss) at March 31, 2018 were fully recycled to the Consolidated Statement of Income as at March 31, 2023. Derivatives held for risk management are measured at fair value through profit or loss in the Consolidated Statement of Income.

Impairment

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

— Cash and cash equivalents;

— Loans;

— Investment-grade asset-backed securities;

— Accounts receivable from advisory clients;

— Loans and asset-backed securities commitments;

— Loan guarantees

The allowance for ECL is maintained at a level considered adequate to absorb the credit losses expected in the portfolio at the financial reporting date based on reasonable and supportable information about past events, current conditions and forecasts of future economic events, which are established at the individual level.

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

i. Stage 1—12-month ECL: The loss allowance is measured at an amount equal to 12-month expected credit losses if there is no significant increase in credit-risk since initial recognition;

ii. Stage 2—Lifetime ECL: The loss allowance is measured at an amount equal to the lifetime expected credit losses if there is a significant increase in credit risk since initial recognition and the loan is not considered credit-impaired;

iii. Stage 3—Lifetime ECL: The loss allowance is measured as the difference between the carrying amount and present value of its estimated future cash flow if the loan is considered credit-impaired.

3. Significant accounting policies (continued)

Financial instruments (continued)

Subsequent measurement of financial instruments (continued)

Impairment (continued)

The ECL model calculates a probability-weighted estimate that incorporates forward-looking information representing three macro-economic scenarios. The assessment of significant increase in credit risk is based on changes in the forward-looking lifetime probability of default since initial recognition. For certain instruments with low credit risk at the reporting date, the credit risk has not increased significantly relative to initial recognition. Credit risk is low if the financial asset has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

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

Definition of default

Per BDC's credit risk management policy, a financial asset is considered impaired and is moved to Stage 3 when it is in default of payments for three consecutive months and collection efforts are not reasonably expected to result in repayment, or when adverse events have occurred that are judged to be severe and likely unresolvable, which indicate that BDC can no longer expect to collect the expected future cash flows in full.

Write-off policy

Financial assets are written off, either partially or in full, after BDC has exhausted all possible avenues of recovery from the borrower and guarantors and no value can be expected from the realization of security.

Major types of financial instruments

Cash equivalents

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

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

Loans

Loans are classified and measured at amortized cost using the effective interest rate method, less allowance for expected credit losses. Loans presented on the Consolidated Statement of Financial Position include accrued interest receivable.

Allowance for expected credit losses

BDC establishes the allowances for credit losses on an individual asset basis for loans, loan commitments and loan guarantees using the three-stage IFRS 9 impairment model and recognizes ECLs in the provision for expected credit losses in the Consolidated Statement of Income. The allowance for credit losses related to loans is presented in the allowance for expected credit losses against Loans in the Consolidated Statement of Financial Position. The allowance for credit losses related to loan commitments and guarantees is included in the liabilities under "Expected credit losses on loan commitments and guarantees".

Allowance on performing loans

Under the IFRS 9 ECL methodology, an allowance is recorded for expected credit losses on loans, loan commitments and loan guarantees regardless of whether there has been an actual impairment. We recognize a loss allowance at an amount equal to 12-month expected credit losses for loans in Stage 1 if the credit risk at the reporting date has not increased significantly since initial recognition. We record expected credit losses over the remaining life of performing loans in Stage 2 when they have experienced a significant increase in credit risk.

3. Significant accounting policies (continued)

Financial instruments (continued)

Subsequent measurement of financial instruments (continued)

Loans (continued)

Allowance on impaired loans

Under BDC's definition of default, loans are considered to be in default and classified in Stage 3 when they meet one or both of the following criteria which represent objective evidence of impairment:

- there has been a deterioration in credit quality to the extent that BDC considers that the obligor is unlikely to pay its credit obligations to BDC in full; or
- the obligor is past due more than 90 days on any credit obligation to BDC and collection efforts are not reasonably expected to result in repayment.

When a loan is considered impaired, ECLs are measured as the difference between the carrying amount of the loan and the present value of its estimated future cash flows discounted using (i) the effective interest rate of the loan for fixed-rate loans or (ii) the rate at time of impairment for floating-rate loans.

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

Changes in the allowance for expected credit losses on loans, loan commitments and loan guarantees as a result of originations, repayments and maturities, changes in risk parameters, remeasurements and modifications are recorded in the provision for expected credit losses in our Consolidated Statement of Income.

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

Asset-backed securities

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

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

The fair value of each ABS is calculated using forecasted cash flows and an estimated discount rate that is derived from the yield on Government of Canada bonds for a similar term length and an ABS spread for comparable transactions. The result is adjusted to reflect the risk of the underlying assets and deal structure.

As required by IFRS 9, expected credit losses are calculated on the disbursed and undisbursed portfolio of investment grade senior notes since they are classified at FVOCI. No impairment is calculated on the subordinated notes since they are classified at FVTPL.

ABS credit risk is monitored quarterly using internal credit risk rating methodology. As at March 31, 2023, and March 31, 2022, all of the investment-grade senior notes are considered low credit risk, and therefore the low credit risk simplification is used and the impairment is calculated based on 12-month expected credit losses.

Refer to Note 5— *Significant accounting judgments, estimates and assumptions* for more information regarding the criteria used to determine whether an impairment has occurred.

3. Significant accounting policies (continued)

Financial instruments (continued)

Subsequent measurement of financial instruments (continued)

Investments

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

BDC's valuation process for fair value measurement of debt and equity investments was derived from the International Private Equity and Venture Capital Valuation Guidelines. Based on the type of investments being valued, BDC uses (i) market-based methodologies, such as the quoted share price or the price of recent similar investments; (ii) discounted earnings or cash flow approaches; or (iii) liquidation or asset-based methods. These fair values are updated at least twice a year by BDC's investment managers, reviewed by internal valuators and a valuation committee, which includes an external member who is a chartered business valuator. Indirect equity investments include fund transactions and the fair value of these investments are determined using the asset-based method. BDC uses the most recent net assets provided by the administrator or by the general partner, unless there is an indication that fair value differs from the net asset value provided. The net assets are adjusted for all events between the reporting date of the fund and BDC's reporting date, typically a period of one quarter. Events include but are not limited to disbursements, distributions, foreign exchange, change in publicly quoted investments and material events impacting underlying portfolio companies.

Derivatives

Derivative financial instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, stock market indices or other financial instrument measures. BDC acquires derivative financial instruments to manage exposures to interest, currency and other market risks. BDC does not hold derivatives for speculative or trading purposes. Derivatives are classified at fair value through profit or loss.

All BDC derivatives are over-the-counter and are mainly composed of swaps and foreign exchange forwards. The fair value of swaps is determined using pricing models that take into account current market and contractual prices of the underlying instrument, as well as time value, the yield curve, or volatility factors underlying the position and embedded options. The fair value of foreign exchange forwards is calculated by discounting the notional amount using the yield curves of the respective currencies. Inputs to both these calculations are market-observable data sourced from leading inter-dealer brokers, together with industry-standard valuation models for estimating fair value.

Borrowings

Short and long-term notes are measured at amortized cost.

Interest accrued on borrowings is included in the carrying amount of both short- and long-term notes.

Financial guarantees

BDC issues "letters of credit, loan guarantees and portfolio guarantees" (guarantees) to support businesses. They represent BDC's obligation to make payments to third parties if clients are unable to meet their contractual commitments. All guarantees are issued to unrelated parties on arm's-length terms. Those guarantees are initially recognized at fair value at the date the contract is issued. As no initial fee at inception is received, the fair value is considered nil. In addition, no receivable for future expected fees is recognized on initial recognition.

Subsequently, the guarantees are measured at the amount of the allowance for expected credit losses based on the three-stage IFRS 9 impairment model and recognized in the Consolidated Statement of Financial Position.

The fee income is calculated as a percentage of the outstanding principal amounts and is recognized in fee and other income in the Consolidated Statement of Income as it becomes payable.

Subsequent recognition of a claim payable will only occur when it becomes more likely than not that a client will not meet its contractual commitments resulting in a call on guarantee. When a claim is recorded, the expected credit loss related to the guarantee is reversed and the actual claim amount is recorded in provision for expected credit losses in the Consolidated Statement of Income.

3. Significant accounting policies (continued)

Interest income and interest expense on financial instruments, and fee income

Interest income and expense for interest-bearing financial instruments are recognized in interest income and interest expense in the Consolidated Statement of Income using the effective interest rate method, with the exception of debt investments classified as FVTPL, for which interest income is recognized using the contractual rate of the instrument. Interest on impaired loans continues to be recognized based on the reduced carrying amount using the interest rate used to discount the future cash flows for the purposes of measuring the impairment loss.

For loans provided at no interest rate, the fair value is estimated on initial recognition as the present value of all future cash receipts discounted using the prevailing market rates for similar transactions with a similar credit rating. At initial recognition, the difference between the fair value and the transaction amount disbursed is recognized as a net loss on other financial instruments in the Consolidated Statement of Income. Interest income is subsequently measured using the effective interest rate method and recognized in interest income in the Consolidated Statement of Income.

Debt investments also bear non-interest returns, such as royalties and interest bonuses, which are recognized in fee and other income in the Consolidated Statement of Income when it is probable that they will be received, and the amounts can be reliably measured.

Fees that are integral to originating or renegotiating a loan are deferred and recognized as interest income over the expected term of the loan using the effective interest rate method. All other fees are recognized in net income as the related services are performed.

Premiums and discounts on borrowings are amortized in interest expense over the life of the obligation using the effective interest rate.

Revenue from Advisory Services

Advisory Services provides solutions and advice to entrepreneurs. Revenue from Advisory Services is recognized over time as the performance obligations under the contracts are rendered to the clients and is measured using a percentage of completion method based on delivery costs incurred to date compared to total delivery costs expected to deliver the service.

Leases

At inception of a contract, BDC assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, BDC determines whether:

— the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

— BDC has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and

— BDC has the right to direct the use of the asset. BDC has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

BDC recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically tested for impairment and reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, BDC's incremental borrowing rate. Generally, BDC uses its incremental borrowing rate as the discount rate. Lease payments mainly include fixed payments.

3. Significant accounting policies (continued)

Leases (continued)

Subsequently, the lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising mainly from a change in BDC's evaluation of whether it will exercise an extension or termination option or if there are changes in lease payments due to the reassessment of a location's square footage.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

BDC has elected not to recognize right-of-use assets and lease liabilities for some short-term leases that have a lease term of 12 months or less and for leases of low-value assets such as office equipment. BDC recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Net defined benefit asset or liability

BDC maintains a registered defined benefit pension plan, supplemental defined benefit pension plans and other post-employment defined benefits (which include health, dental, critical illness and life insurance coverage) for eligible employees.

The net defined benefit asset or liability is the present value of the defined benefit obligation less the fair value of plan assets.

BDC's defined benefit obligation in respect of retirement benefit plans is calculated separately for each plan by estimating the amount of future benefits employees have earned in return for their services in the current and prior periods.

The defined benefit obligation is calculated for each plan using the projected unit credit method. In determining the present value of its defined benefit obligation, and the related current service cost and past service cost, BDC attributes the benefit to periods of service under the plan's benefit formula. The present value of the defined benefit obligation is calculated by discounting the estimated future cash outflows using interest rates that have terms to maturity approximating the terms of the obligation. These interest rates are derived from yields on high quality corporate bonds which, because of the limited number of these bonds at longer maturities, are extrapolated for longer terms based on high quality provincial bond yields to which a spread is added to reflect the additional credit risk of high-quality corporate bonds.

BDC determines the net interest expense or income on the net defined benefit asset or liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual reporting period to both the defined benefit obligation and the plan assets. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognized immediately in profit or loss when the plan amendment or curtailment occurs.

Remeasurements, which include actuarial gains and losses and the return on plan assets excluding net interest on the net defined benefit liability (asset), are recognized immediately in OCI. Remeasurements recognized in OCI are reflected immediately in retained earnings and are not reclassified to net income. Current service costs, past service costs, gain or loss on curtailment, and net interest on the net defined benefit asset or liability are recognized in net income.

Equity attributable to BDC's shareholder

Share capital represents the par value of common shares issued and in circulation. Contributed surplus represents the value of assets transferred to BDC by the shareholder without issuance of shares.

Unrealized gains and losses on financial instruments classified as FVOCI assets are included in AOCI until such time as the financial instruments are derecognized or impaired, at which time these gains or losses are reclassified to net income. Prior to April 1, 2018, unrealized gains and losses on derivative financial instruments designated as hedging instruments were included in AOCI until such time as the hedged forecasted cash flows were reclassified to net income. BDC elected to de-designate the hedging instruments effective March 31, 2018 and current AOCI balances were reclassified to net income over the original contract life remaining.

Retained earnings include all current and prior periods' net income and remeasurements of net defined benefit asset or liability, net of dividends paid.

3. Significant accounting policies (continued)

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies, all of which are monetary, are translated into Canadian dollars at exchange rates prevailing at the reporting date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars using the exchange rate at either the daily or monthly average exchanges rates in effect during the year.

Unrealized and realized foreign exchange gains or losses on foreign exchange forwards, debt investments, loans, asset-backed securities as well as unrealized foreign exchange gains or losses on equity investments are included in the Consolidated Statement of Income and reported as net foreign exchange gains or losses, whereas realized and unrealized gains or losses on debts and swaps are reported as net gains or losses on other financial instruments. Realized foreign exchange gains or losses on equity investments are reported under net realized gains (losses) on investments in the Consolidated Statement of Income.

Segmented information

BDC has the following operating segments, which are based on differences in products and services and government supported initiatives: Financing, Advisory Services, Growth & Transition Capital, Venture Capital, Capital Incentive Programs and Credit Availability Program.

The operating segments are reported in a manner consistent with the way BDC presents and discloses information that is regularly reviewed by the senior management team and the Board of Directors in assessing performance.

All transactions between business segments are recognized on an arm's-length basis. Income and expenses directly associated with each segment are included when determining business segment performance.

(in thousands of Canadian dollars)

4.

Interbank Offered Rates (IBOR) Reform

Interest rate benchmark rates including the Canadian Dollar Offered Rate (CDOR) and London Interbank Offered Rate (LIBOR) are being replaced by alternative reference rates (ARR) based on risk-free rates determined using actual market transactions. BDC has exposures to CDOR and LIBOR, particularly the USD LIBOR.

In August 2020, the IASB issued the second phase of the Interbank Offered Rates (IBOR) Reform which amends IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement*, IFRS 7, *Financial Instruments: Disclosures*, IFRS 4, *Insurance Contracts*, and IFRS 16, *Leases*. BDC adopted the final amendments on April 1, 2021.BDC applies the practical expedient of the Phase 2 amendments which allows modifications of amortized cost financial assets and financial liabilities that are made as a direct consequence of the IBOR Reform, and on an economically equivalent basis, to be accounted for by updating the effective interest rate prospectively with no immediate gain or loss recognition. If additional changes are made and are not directly related to the reform, the IFRS 9 requirements are to be applied.

In March 2021, the Financial Conduct Authority (FCA) confirmed that the publication of most tenors of USD LIBOR (overnight, one-month, three-month, six-month and 12-month LIBOR) will cease immediately following a final publication on June 30, 2023. On May 16, 2022, the administrator of CDOR, Refinitiv Benchmark Services (UK) Limited, announced that the calculation and publication of all tenors of CDOR will permanently cease immediately following a final publication on June 28, 2024.

To manage our transition to ARRs, we have created a working group to evaluate and monitor the key areas of impact to support the Bank's transition through the reform. This includes identifying the exposures to various IBORs, evaluating the existing contracts exposed to IBOR and their remediation, identifying risk areas, evaluating the financial reporting impacts and legal aspects, developing the capabilities to issue and trade products referencing risk free rates, evaluating the modifications required to processes and systems and establishing communication with clients and counterparties regarding industry developments through the transition.

As the majority of BDC's exposure to financial instruments subject to the IBOR Reform is related to syndicated loans for which BDC is not the lead syndicate, BDC's transition plan is reliant on the transition plans of these lead syndicates. In general, the interest rates on these loans are reset every three months, and as they are repriced, the existing interest rate is transitioned to an alternative reference rate (ARR) prior to the cessation date of the applicable USD Libor or CDOR rate.

The following table provides BDC's exposures to financial instruments subject to the IBOR Reform as at March 31, 2023 and March 31, 2022, that have yet to transition to ARRs for USD LIBOR and CDOR.

		March 31, 2023
	USD LIBOR	CDOR
Non-derivative financial assets		
Asset backed securities	**452**	**76**
Loans[(1)]	**8,212**	**283,417**
	8,664	**283,493**

		March 31, 2022
	USD LIBOR	CDOR
Non-derivative financial assets		
Asset backed securities	591	858
Loans[(1)]	244,508	196,123
	245,099	196,981

(1) Portfolios are at gross carrying amount

5. Significant accounting judgements, estimates and assumptions

The preparation of the Consolidated Financial Statements in accordance with IFRS requires management to make judgments 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.

The downturn in the Canadian and global economy brings additional uncertainty on the assumptions used by management in making its judgments and estimates. The current economic environment characterized by high inflation, supply chain disruptions, labour shortages and geopolitical tensions is challenging for businesses. To reduce inflation, the Bank of Canada has been raising its policy rate aggressively resulting in a slowdown in the economic activity and consumer demand. BDC has credit exposures to businesses that are impacted, either directly or indirectly, by increases in interest rates, energy costs, commodity prices, or disruption in their supply chains. It is difficult to reliably estimate the length and severity of these developments and the impact on the financial results and condition of BDC in future periods. Given that the full extent of the impact of rising interest rates, geopolitical tensions, and supply chain disruptions will have on the global economy and BDC's business is uncertain and not predictable at this time, there is a higher level of uncertainty with respect to management's judgments and estimates.

Information about the significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the Consolidated Financial Statements are summarized in this note.

Allowance for expected credit losses

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

BDC reviews its loans, loan commitments and loan guarantees individually to estimate the provision for expected credit losses. The process requires BDC to make assumptions and judgments by carrying out certain activities, including assessing the impaired status and risk of a loan, loan commitments and loan guarantees, and estimating future cash flows and collateral values.

Impaired loans, loan commitments and loan guarantees, are considered in Stage 3. All other loans, loan commitments and loan guarantees are either considered in Stage 1 or in Stage 2 if a significant increase in credit risk has occurred. If the increase in credit risk is no longer considered significant, loans, loan commitments and loan guarantees, will be moved back to Stage 1 and if the loans, loan commitments and loan guarantees, are no longer considered impaired, they will be transferred back to Stage 1 or 2. At each reporting date, BDC considers the following criteria to assess whether a significant increase in credit risk has taken place since the initial recognition:

— a significant increase in the expected lifetime probability of default since origination

— loans, loan commitments and loan guarantees that are on the watchlist and

— loans that are 30 days past due

Expert credit judgment may also be applied, as required, to account for loans that have experienced a significant increase in credit risk. The ECL is calculated for each exposure, taking into account the financial instrument's forward-looking probability of default, loss given default and exposure at default. IFRS 9 requires current and expected economic conditions for multiple scenarios to be taken into account in determining whether there has been a significant increase in credit risk and in calculating the amount of expected losses. BDC considers three forward-looking scenarios that are probability weighted. The "base case" represents the most likely scenario under current and forward-looking economic conditions, whereas the "upside" and "downside" differ relative to the base case based on plausible economic conditions. Management judgment is required in the application of forward-looking information. Our ECL methodology may also require the use of experienced credit judgment to incorporate the estimated impact of economic factors when they are not adequately captured in the modelled ECL results. Actual results may differ materially from those recorded on March 31, 2023.

Changes in these assumptions, or the use of other reasonable judgments, can materially affect the allowance level. Refer to Note 10—*Loans*, for more information on the allowance for expected credit losses.

5. Significant accounting judgements, estimates and assumptions (continued)

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the Consolidated Statement of Financial Position cannot be derived from active markets (i.e., from quoted market prices or dealer price quotations), it is determined using valuation techniques, including discounted cash flow models. The price of a recent investment is considered to calibrate inputs to the valuation models and is established from completed financing rounds prior to or at the reporting date. When there has been a recent significant investment in the investee(s) the price of that investment is considered for fair value.

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

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

BDC's valuation process considered the impacts of the macro-economic and the geopolitical environment, interest rates, workforce, supply chain, liquidity level and the ability to obtain financing. The process includes management adjustments based on factors such as the competitive landscape, quality, and financial ability of the stakeholders to support the business, specific business fundamentals and the rank of financial instruments.

Net defined benefit asset or liability

The cost of defined benefit pension plans and other post-employment benefits, and the present value of the related obligations, are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates used to measure the obligations, expected future salary increases, expected retirement age, expected mortality rates, expected health care cost trends, expected inflation and expected future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Actual results will differ from results that are estimated based on assumptions.

Refer to Note 15—*Net defined benefit asset or liability* for additional information about the key assumptions.

Consolidation

A key judgment that has been used in the preparation of the Consolidated Financial Statements is that BDC has the power to control certain investment funds (refer to Note 2—*Basis of preparation*, for additional information). BDC has assessed that it has the current ability to direct the funds' activities that most significantly affect their returns, and that BDC is exposed to these returns. Consequently, these funds have been fully consolidated rather than accounted for using the equity accounting approach.

(in thousands of Canadian dollars)

6.

Classification and fair value of financial instruments

Classification of financial instruments

The following tables summarize the classification of BDC's financial instruments as at March 31, 2023, and March 31, 2022.

		Measured at fair value			March 31, 2023
	Note	FVTPL	FVOCI	Measured at amortized cost	Total
Financial assets					
Cash and cash equivalents	7	–	–	**878,919**	**878,919**
Derivative assets	8	**11,603**	–	–	**11,603**
Asset-backed securities	9	**18,400**	**1,157,700**	–	**1,176,100**
Loans, net of allowance for expected credit losses	10	–	–	**35,932,703**	**35,932,703**
Investments	11	**5,742,512**	–	–	**5,742,512**
Other assets[(1)]		–	–	**30,668**	**30,668**
Total financial assets		**5,772,515**	**1,157,700**	**36,842,290**	**43,772,505**
Financial liabilities					
Accounts payable, accrued and other liabilities[(1)]	13	–	–	**311,149**	**311,149**
Derivative liabilities	8	**117**	–	–	**117**
Short-term notes	14	–	–	**19,767,097**	**19,767,097**
Long-term notes	14	–	–	**7,157,814**	**7,157,814**
Expected credit losses on loan commitments and guarantees		–	–	**554,344**	**554,344**
Total financial liabilities		**117**	–	**27,790,404**	**27,790,521**

(1) Certain items within the other assets and other liabilities categories in the Consolidated Statement of Financial Position are not considered to be financial instruments.

(in thousands of Canadian dollars)

6. Classification and fair value of financial instruments (continued)

Classification of financial instruments (continued)

March 31, 2022

	Note	Measured at fair value FVTPL	Measured at fair value FVOCI	Measured at amortized cost	Total
Financial assets					
Cash and cash equivalents	7	–	–	906,386	906,386
Derivative assets	8	12,277	–	–	12,277
Asset-backed securities	9	13,024	975,442	–	988,466
Loans, net of allowance for expected credit losses	10	–	–	33,283,517	33,283,517
Investments	11	5,862,554	–	–	5,862,554
Other assets(1)		–	–	31,118	31,118
Total financial assets		5,887,855	975,442	34,221,021	41,084,318
Financial liabilities					
Accounts payable, accrued and other liabilities(1)	13	–	–	301,306	301,306
Derivative liabilities	8	110	–	–	110
Short-term notes	14	–	–	14,385,629	14,385,629
Long-term notes	14	–	–	5,707,297	5,707,297
Expected credit losses on loan commitments and guarantees		–	–	315,778	315,778
Total financial liabilities		110	–	20,710,010	20,710,120

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

Financial instruments carried at amortized cost

The following table provides a comparison of the carrying and fair values of BDC's financial instruments that are not carried at fair value in the Consolidated Financial Statements and for which the carrying values are not reasonable approximations of their fair value.

	March 31, 2023 Fair value hierarchy level	**March 31, 2023** Fair value	**March 31, 2023** Carrying value	March 31, 2022 Fair value hierarchy level	March 31, 2022 Fair value	March 31, 2022 Carrying value
Financial assets measured at amortized cost						
Loans	**2**	**35,289,931**	**35,932,703**	2	32,888,123	33,283,517
Financial liabilities measured at amortized cost						
Long-term notes	**2**	**6,958,562**	**7,157,814**	2	5,558,308	5,707,297

Loans measured at amortized cost

The net carrying value of performing floating-rate loans is a reasonable approximation of their fair value because the net carrying value reflects changes in interest rates since the loan was originated. For performing fixed-rate loans, fair value is determined using a discounted cash flow calculation that uses market interest rates prevailing at the end of the period charged for similar new loans with corresponding remaining terms.

For impaired loans, the fair value is equal to the net carrying value determined in accordance with the valuation methods described in Note 3—*Significant accounting policies*, under the heading Major types of financial instruments – Loans.

Short-term notes measured at amortized cost

The fair value of short-term notes classified at amortized cost is determined using a quoted market price. The carrying value of short-term notes is a reasonable approximation of their fair value because of their short term to maturity. This is the reason why the short-term notes are not disclosed in the table above.

(in thousands of Canadian dollars)

6. Classification and fair value of financial instruments (continued)

Financial instruments carried at amortized cost (continued)

Long-term notes measured at amortized cost

The fair value of long-term notes classified at amortized cost is determined using a discount cash flow calculation that uses market interest rates based on the remaining time to maturity.

Financial instruments measured at fair value

The assumptions and methods used to estimate the fair value of those financial assets and liabilities that are measured at fair value are disclosed in Note 3—*Significant accounting policies*.

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

Level 1—fair values based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities

Level 2—fair values based on inputs other than quoted prices in active markets that are either directly or indirectly observable

Level 3—fair values based on valuation techniques with one or more significant unobservable market inputs

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

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

				March 31, 2023
	Fair value measurements using			Total
	Level 1	Level 2	Level 3	fair value
Assets				
Derivative assets	**–**	**11,603**	**–**	**11,603**
Asset-backed securities	**–**	**1,176,100**	**–**	**1,176,100**
Investments	**105,160**	**–**	**5,637,352**	**5,742,512**
	105,160	**1,187,703**	**5,637,352**	**6,930,215**
Liabilities				
Derivative liabilities	**–**	**117**	**–**	**117**
	–	**117**	**–**	**117**

				March 31, 2022
	Fair value measurements using			Total
	Level 1	Level 2	Level 3	fair value
Assets				
Derivative assets	–	12,277	–	12,277
Asset-backed securities	–	988,466	–	988,466
Investments	224,708	–	5,637,846	5,862,554
	224,708	1,000,743	5,637,846	6,863,297
Liabilities				
Derivative liabilities	–	110	–	110
	–	110	–	110

(in thousands of Canadian dollars)

6. Classification and fair value of financial instruments (continued)

Financial instruments measured at fair value (continued)

The following tables detail the changes in fair value measurement for financial instruments included in Level 3 of the fair value hierarchy. The procedures and valuation techniques used to determine the fair values of debt and equity investments included in Level 3 are described in Note 3—*Significant accounting policies*. These valuation techniques draw upon diverse unobservable inputs, none of which, with the exception of the risk-free interest rate, is individually significant enough to have a material impact on BDC's net income if it varied within reasonably possible ranges. For debt investments, the impact of a 1% variation in the risk-free rate would result in a gain or loss of $12.1 million in the current period and an equivalent change in retained earnings ($11.1 million in 2022).

	March 31, 2023
	Total
Fair value as at April 1, 2022	**5,637,846**
Net realized gains (losses) on investments	**(10,961)**
Net change in unrealized appreciation (depreciation) of investments	**(677,811)**
Net unrealized foreign exchange gains (losses) on investments	**145,468**
Disbursements for investments	**1,012,311**
Repayments of investments and other	**(418,660)**
Transfers from Level 3 to Level 1	**(50,841)**
Fair value as at March 31, 2023	**5,637,352**

	March 31, 2022
	Total
Fair value as at April 1, 2021	4,279,815
Net realized gains (losses) on investments	480,402
Net change in unrealized appreciation (depreciation) of investments	876,610
Net unrealized foreign exchange gains (losses) on investments	(12,861)
Disbursements for investments	1,136,057
Repayments of investments and other	(914,403)
Transfers from Level 3 to Level 1	(207,774)
Fair value as at March 31, 2022	5,637,846

The following table shows total gains or losses for financial instruments included in Level 3 that are attributable to assets held at the end of the reporting periods.

	2023	2022
Net realized gains (losses) on investments	**(206)**	188,368
Net change in unrealized appreciation (depreciation) of investments	**(696,011)**	997,974
Net unrealized foreign exchange gains (losses) on investments	**143,782**	(10,865)
Total gains related to Level 3 assets still held at the end of the reporting period	**(552,435)**	1,175,477

(in thousands of Canadian dollars)

7.
Cash and cash equivalents

As at March 31, 2023, and March 31, 2022, there are no restrictions on cash and cash equivalents. Cash and cash equivalents include the following components.

	March 31, 2023	March 31, 2022
Cash	**878,919**	906,386
Cash and cash equivalents	**878,919**	906,386

8.
Derivative financial instruments

In compliance with BDC's Treasury Risk Policy, BDC uses swaps and forwards to mitigate its foreign exchange and interest rate risk. BDC's policy is not to use derivative financial instruments for speculative purposes. BDC did not enter into any transactions that would require netting during the year.

Swaps

Swaps are contractual obligations to exchange a series of cash flows on a specific notional amount for a predetermined period. The various swap agreements that BDC may enter into are as follows:

— interest rate swaps, which involve exchange of fixed- and floating-rate interest payments; and

— cross-currency interest rate swaps, which involve the exchange of both interest and notional amounts in two different currencies.

BDC may enter into interest rate and cross currency interest rate swaps to hedge the financial impact of future interest rate and currency fluctuations in relation to changes in the loan portfolio mix. Prior to March 31, 2018, these contracts were designated as cash flow hedges. BDC elected to de-designate the hedging instruments effective March 31, 2018.

The main risk associated with these instruments is related to movements in interest rates and foreign currencies.

Forwards

Forwards are contractual agreements to either buy or sell currencies or financial instruments at specified prices and dates in the future. They are customized contracts transacted in the over-the-counter market.

BDC economically hedges its foreign currency denominated loans and debt investments with foreign exchange forward contracts. Equity investments denominated in foreign currencies are economically hedged following the occurrence of a liquidity event. These instruments are classified as fair value through profit and loss.

The main risks associated with these instruments arise from the possible inability of over-the-counter counterparties to meet the terms of the contracts, and from movements in interest rates and foreign exchange rates.

(in thousands of Canadian dollars)

8. Derivative financial instruments (continued)

The following tables provide the fair value of BDC's derivatives portfolio as represented by gross assets and gross liabilities values. Refer to Note 18—*Risk management*, for additional information on master netting agreements and collateral associated with derivatives.

			March 31, 2023
	Gross assets	Gross liabilities	Net amount
Foreign exchange forward contracts	**11,603**	**117**	**11,486**
Total derivative financial instruments	**11,603**	**117**	**11,486**

			March 31, 2022
	Gross assets	Gross liabilities	Net amount
Foreign exchange forward contracts	12,277	110	12,167
Total derivative financial instruments	12,277	110	12,167

The following table summarizes the notional amount, by term to maturity, of derivative instruments. Notional amounts, which are provided solely for comparative purposes, are not recorded as assets or liabilities on the Consolidated Statement of Financial Position, as they represent the face amount of the contract to which a rate or a price is applied to determine the amount of cash flows to be exchanged.

	Term to maturity	**March 31, 2023**	March 31, 2022
	Within 1 year	Notional amount	Notional amount
Foreign exchange forward contracts	**887,747**	**887,747**	673,282
Total derivative financial instruments	**887,747**	**887,747**	673,282

All amounts in foreign currencies are converted into the Canadian dollar equivalent using the rate of exchange of the derivative contracts.

(in thousands of Canadian dollars)

9.

Asset-backed securities

The following table summarizes ABS by classification of financial instruments. As at March 31, 2023, $143,666 in ABS had maturities of less than five years ($38,897 as at March 31, 2022) and $1,032,434 had maturities over five years ($949,569 as at March 31, 2022). The ABS may be redeemed by the issuing trust at par depending on the terms of the securitization deal if the balance of the underlying assets or, in some cases, the balance of the notes, amortizes below 10% of the original balance at issuance. No ABS were impaired as at March 31, 2023, and March 31, 2022. No allowance for expected credit losses was recorded for disbursed and undisbursed ABS at fair value through other comprehensive income as at March 31, 2023 and March 31, 2022 on the basis that results of the ECL calculation were insignificant. Refer to Note 18—*Risk management*, for additional information on credit risk associated with the ABS portfolio.

	March 31, 2023	March 31, 2022
Fair value through other comprehensive income		
Principal amount	**1,187,290**	992,833
Cumulative fair value appreciation (depreciation)	**(29,590)**	(17,391)
Carrying value	**1,157,700**	975,442
Yield	**3.33%**	2.04%
Fair value through profit or loss		
Principal amount	**18,602**	13,157
Cumulative fair value appreciation (depreciation)	**(202)**	(133)
Carrying value	**18,400**	13,024
Yield	**9.86%**	6.98%
Asset-backed securities	**1,176,100**	988,466

Committed amounts of authorized asset-backed securities were $755,866 as at March 31, 2023 ($439,836 as at March 31, 2022), all of which are in the Financing segment.

(in thousands of Canadian dollars)

10.
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
						2023
Performing	**455,469**	**5,479,860**	**30,111,047**	**36,046,376**	**(695,872)**	**35,350,504**
Impaired	**46,036**	**171,001**	**713,329**	**930,366**	**(348,167)**	**582,199**
Loans as at March 31, 2023	**501,505**	**5,650,861**	**30,824,376**	**36,976,742**	**(1,044,039)**	**35,932,703**

	Within 1 year	1 to 5 years	Over 5 years	Total gross carrying amount	Allowance for expected credit losses	Total net carrying amount
						2022
Performing	579,719	5,581,543	27,163,276	33,324,538	(767,829)	32,556,709
Impaired	40,268	161,719	868,234	1,070,221	(343,413)	726,808
Loans as at March 31, 2022	619,987	5,743,262	28,031,510	34,394,759	(1,111,242)	33,283,517

Allowance for expected credit losses

The following tables show a reconciliation from the opening to the closing balance of the expected credit loss allowance.

	March 31, 2023			
	Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2022	**311,856**	**455,973**	**343,413**	**1,111,242**
Provision for expected credit losses				
Transfer to Stage 1(1)	**210,629**	**(206,385)**	**(4,244)**	**–**
Transfer to Stage 2(1)	**(126,774)**	**180,471**	**(53,697)**	**–**
Transfer to Stage 3(1)	**(1,783)**	**(48,962)**	**50,745**	**–**
Net remeasurement of allowance for expected credit losses(2)	**(257,255)**	**47,633**	**125,487**	**(84,135)**
Financial assets that have been fully repaid	**(33,289)**	**(56,401)**	**(25,570)**	**(115,260)**
New financial assets originated	**198,481**	**20,842**	**10,844**	**230,167**
Write–offs	**–**	**–**	**(128,929)**	**(128,929)**
Recoveries	**–**	**–**	**28,689**	**28,689**
Foreign exchange and other movements	**196**	**640**	**1,429**	**2,265**
Balance as at March 31, 2023	**302,061**	**393,811**	**348,167**	**1,044,039**

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

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

(in thousands of Canadian dollars)

10. Loans (continued)

Allowance for expected credit losses (continued)

	March 31, 2022			
	Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2021	395,895	715,515	414,290	1,525,700
Provision for expected credit losses				
Transfer to Stage 1(1)	261,079	(257,948)	(3,131)	–
Transfer to Stage 2(1)	(158,853)	228,632	(69,779)	–
Transfer to Stage 3(1)	(1,364)	(55,325)	56,689	–
Net remeasurement of allowance for expected credit losses(2)	(378,369)	(146,677)	69,712	(455,334)
Financial assets that have been fully repaid	(41,879)	(58,794)	(39,877)	(140,550)
New financial assets originated	235,250	30,712	–	265,962
Write-offs	–	–	(114,098)	(114,098)
Recoveries	–	–	29,705	29,705
Foreign exchange and other movements	97	(142)	(98)	(143)
Balance as at March 31, 2022	311,856	455,973	343,413	1,111,242

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

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

Key input and assumptions

The measurement of allowance for expected credit losses is the result of a complex calculation using a number of assumptions and inputs. The key drivers that contribute to changes in expected credit losses include:

- Changes in the forward-looking macro-economic conditions of multiple scenarios and their respective weighting;
- Changes in the credit risk of loans as reflected by changes in the internal risk ratings;
- Change in volume of new loans and portfolio growth;
- Loan exposure migration between the stages because of changes of the above inputs and assumptions.

Forward-looking information

Forward-looking information is included in both the assessment of allowance for expected credit losses and whether a financial instrument has experienced a significant increase in credit risk. The probability of default (PD), the loss given default (LGD) and the exposure at default (EAD) inputs used to estimate the expected credit loss allowance on the performing portfolio reflect the scenario-weighted forward-looking assumptions. Forward-looking macro-economic variables are forecasted for the base case, upside case and downside case scenarios. For each of the three macro-economic scenarios, the expected credit loss estimate includes a projection of relevant macro-economic variables over the upcoming two years. Key variables include, but are not limited to, GDP growth, unemployment rates, Consumer Price Index, and interest rates. Forecasts include both national and provincial macro-economic variables.

According to the base case scenario, real GDP growth for 2023* is expected to be modest compared to 2022*, mainly due to weak business sector investment resulting from the Bank of Canada's tightening monetary policy. While the consumer has been the driving force in past years, personal spending for durable items is expected to weaken, although incomes and savings levels are expected to remain relatively strong. Looking ahead to 2024*, the Canadian economy is expected to show growth below potential, but still higher than the current year.

* Calendar year

(in thousands of Canadian dollars)

10. Loans (continued)

Forward-looking information (continued)

Upside and downside scenarios are based on plausible alternative macroeconomic conditions that may impact growth in GDP. In the downside scenario, negative growth is forecasted for 2023*, followed by a long and slow recovery beginning in 2024*. This scenario accounts for the possibility of a more severe impact stemming from a slump in housing prices and consumer confidence, as well as a decrease in household consumption. Furthermore, downside risks regarding the recent financial sector turmoil in the US and Europe remain, and while it is expected that these risks continue to be contained, they may continue to impact the growth of the global and Canadian economy. Meanwhile, the upside scenario reflects a recovery in 2023* that is still below potential growth, but with a return to above potential economic activity in 2024*.

The inputs and models used in determining the expected credit losses may not always capture all relevant risk factors in our portfolio. The models were calibrated based on historical performance and relied on macro-economic forecasts combined with experts' judgments in determining the plausible weights for the scenarios considered to reflect the forward-looking information. Starting in the second quarter of fiscal 2023, BDC returned to its quantitative macro-forecast models under economic scenarios (base, upside, and downside) for the assessment of expected credit losses, a management overlay was no longer required given that the economic uncertainties related to the economic recovery following the COVID-19 pandemic were adequately captured in the modelled results.

Sensitivity of expected credit losses

The following tables show the impact on the allowance for expected credit losses that would result under the assumption that all performing loans were in either Stage 1 or Stage 2.

		March 31, 2023
	Allowance for expected credit losses on performing loans(1)	Impact of staging
As reported	**752,972**	**–**
Simulation		
Performing loans as if they were all in Stage 1	**585,406**	**(167,566)**
Performing loans as if they were all in Stage 2	**1,109,273**	**356,301**

(1) Includes loans and loans commitments.

		March 31, 2022
	Allowance for expected credit losses on performing loans(1)	Impact of staging
As reported	824,179	–
Simulation		
Performing loans as if they were all in Stage 1	656,548	(167,631)
Performing loans as if they were all in Stage 2	1,124,677	300,498

(1) Includes loans and loans commitments.

* Calendar year

(in thousands of Canadian dollars)

10. Loans (continued)

Credit risk

The principal items of collateral pledged as security if a loan defaults and other credit enhancements for loans include (i) various types of security on assets; (ii) personal and corporate guarantees; (iii) letters of credit; (iv) assignments of life insurance; (v) assignments or hypothecs of third-party loans; and (vi) assignments of leases.

As at March 31, 2023, $18.7 million ($23.6 million as at March 31, 2022) of impaired loans, net of allowance for credit losses, was secured by assets that BDC had the power to sell in order to satisfy borrower commitments. BDC's policy is to have these assets sold when other avenues of resolution have been exhausted.

The following table summarizes performing and non-performing loans outstanding by client credit risk exposure based on BDC classification.

						March 31, 2023
BDC rating	Grade equivalent	Stage 1	Stage 2	Stage 3	Total	%
0.5-1.0	Investment grade	**4,677,039**	**81,341**	**–**	**4,758,380**	**13%**
1.5-5.0	Non-investment grade	**23,001,337**	**7,122,027**	**–**	**30,123,364**	**81%**
5.5	Watchlist	**6,132**	**1,158,500**	**–**	**1,164,632**	**3%**
6.0 and up	Credit-impaired	**–**	**–**	**930,366**	**930,366**	**3%**
Loans gross carrying amount		**27,684,508**	**8,361,868**	**930,366**	**36,976,742**	**100%**
Allowance for expected credit losses		**(302,061)**	**(393,811)**	**(348,167)**	**(1,044,039)**	
Net carrying amount		**27,382,447**	**7,968,057**	**582,199**	**35,932,703**	

						March 31, 2022
BDC rating	Grade equivalent	Stage 1	Stage 2	Stage 3	Total	%
0.5-1.0	Investment grade	3,949,448	31,031	–	3,980,479	12%
1.5-5.0	Non-investment grade	20,646,720	7,283,559	–	27,930,279	81%
5.5	Watchlist	7,230	1,406,550	–	1,413,780	4%
6.0 and up	Credit-impaired	–	–	1,070,221	1,070,221	3%
Loans gross carrying amount		24,603,398	8,721,140	1,070,221	34,394,759	100%
Allowance for expected credit losses		(311,856)	(455,973)	(343,413)	(1,111,242)	
Net carrying amount		24,291,542	8,265,167	726,808	33,283,517	

The following tables summarize loans outstanding, classified by secured risk exposure coverage.

Secured risk exposure	Performing loans outstanding	Impaired loans outstanding	Total	**March 31, 2023**
Secured financing[(1)]	**25,331,487**	**608,760**	**25,940,247**	**70%**
Partially secured financing[(2)]	**4,324,840**	**127,225**	**4,452,065**	**12%**
Leverage financing[(3)]	**6,390,049**	**194,381**	**6,584,430**	**18%**
Loans outstanding	**36,046,376**	**930,366**	**36,976,742**	**100%**

(1) % of security shortfall at authorization is less than 30%.
(2) % of security shortfall at authorization is between 31% and 60%.
(3) % of security shortfall at authorization is over 60%.

(in thousands of Canadian dollars)

10. Loans (continued)

Credit risk (continued)

Secured risk exposure	Performing loans outstanding	Impaired loans outstanding	Total	March 31, 2022
Secured financing[1]	22,821,856	766,019	23,587,875	69%
Partially secured financing[2]	3,992,588	124,166	4,116,754	12%
Leverage financing[3]	6,510,094	180,036	6,690,130	19%
Loans outstanding	33,324,538	1,070,221	34,394,759	100%

(1) % of security shortfall at authorization is less than 30%.
(2) % of security shortfall at authorization is between 31% and 60%.
(3) % of security shortfall at authorization is over 60%.

BDC considers a loan past due when a client has not made a payment by the contractual due date. The following table shows the gross carrying value of loans that are past due but not classified as impaired because they are either less than three months past due or collection efforts are reasonably expected to result in repayment. These loans are included in Stage 2.

Loans past due but not impaired	Within 1 month	1 to 3 months	Over 3 months	Total
As at March 31, 2023	**160,440**	**41,821**	**17,577**	**219,838**
As at March 31, 2022	111,300	26,532	1,370	139,202

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. The largest concentration in one individual or closely related group of clients was less than 1% as at March 31, 2023, and March 31, 2022.

Undisbursed amounts of authorized loans stood at $4,138,082 as at March 31, 2023 ($1,323,440 at fixed rates; $2,811,592 at floating rates; $3,050 at zero interest rate) ($3,698,715 as at March 31, 2022 ($846,600 at fixed rates; $2,852,115 at floating rates; nil at zero interest rate)). The weighted-average effective interest rate on interest-bearing loan commitments was 7.42% (4.09% as at March 31, 2022).

	March 31, 2023		March 31, 2022	
Geographic distribution	Outstanding	Commitments	Outstanding	Commitments
Newfoundland and Labrador	**792,925**	**45,051**	823,485	44,346
Prince Edward Island	**73,787**	**7,559**	73,912	2,927
Nova Scotia	**708,206**	**45,833**	681,469	49,005
New Brunswick	**489,897**	**43,714**	505,189	51,533
Quebec	**11,915,354**	**1,262,642**	10,790,667	1,292,085
Ontario	**10,254,562**	**1,135,688**	9,583,632	964,543
Manitoba	**986,635**	**118,647**	919,966	96,938
Saskatchewan	**1,015,036**	**124,771**	920,773	113,158
Alberta	**4,968,162**	**828,130**	4,885,030	585,077
British Columbia	**5,577,631**	**515,441**	5,011,952	492,748
Yukon	**105,698**	**4,596**	109,502	2,315
Northwest Territories and Nunavut	**88,849**	**6,010**	89,182	4,040
Total loans outstanding[1]	**36,976,742**	**4,138,082**	34,394,759	3,698,715

(1) Loans commitments included $4,134,046 in the Financing segment, and $4,036 in the Credit Availability Program segment as at March 31, 2023 ($3,676,540, and $22,175 respectively, as at March 31, 2022).

(in thousands of Canadian dollars)

10. Loans (continued)

Credit risk (continued)

Industry sector	Outstanding	March 31, 2023 Commitments	Outstanding	March 31, 2022 Commitments
Manufacturing	**7,819,547**	**1,084,419**	7,259,967	926,017
Wholesale and retail trade	**7,545,389**	**769,761**	6,850,826	799,756
Service industries	**5,758,306**	**459,562**	5,288,151	475,463
Tourism	**3,519,023**	**211,735**	3,641,436	155,837
Commercial properties	**3,751,219**	**211,380**	3,507,522	240,329
Construction	**3,544,654**	**396,832**	3,134,407	362,810
Transportation and storage	**2,462,347**	**282,318**	2,135,019	191,234
Resources	**1,346,911**	**530,441**	1,384,880	380,367
Other	**1,229,346**	**191,634**	1,192,551	166,902
Total loans outstanding[1]	**36,976,742**	**4,138,082**	34,394,759	3,698,715

(1) Loans commitments included $4,134,046 in the Financing segment, and $4,036 in the Credit Availability Program segment as at March 31, 2023 ($3,676,540, and $22,175 respectively, as at March 31, 2022).

The following tables summarize loan commitments outstanding by client credit risk exposure based on BDC classification.

BDC rating	Grade equivalent	Stage 1	Stage 2	Stage 3	Total	March 31, 2023 %
0.5-1.0	Investment grade	**460,854**	**10,920**	**–**	**471,774**	**11%**
1.5-5.0	Non-investment grade	**3,461,540**	**162,685**	**–**	**3,624,225**	**88%**
5.5	Watchlist	**–**	**42,083**	**–**	**42,083**	**1%**
Total loan commitment outstanding		**3,922,394**	**215,688**	**–**	**4,138,082**	**100%**
Allowance for expected credit losses		**(47,172)**	**(9,928)**	**–**	**(57,100)**	
Carrying value		**3,875,222**	**205,760**	**–**	**4,080,982**	

BDC rating	Grade equivalent	Stage 1	Stage 2	Stage 3	Total	March 31, 2022 %
0.5-1.0	Investment grade	573,285	2,751	–	576,036	16%
1.5-5.0	Non-investment grade	2,894,646	188,014	–	3,082,660	83%
5.5	Watchlist	–	40,019	–	40,019	1%
Total loan commitment outstanding		3,467,931	230,784	–	3,698,715	100%
Allowance for expected credit losses		(47,310)	(9,040)	–	(56,350)	
Carrying value		3,420,621	221,744	–	3,642,365	

(in thousands of Canadian dollars)

10. Loans (continued)

Credit risk (continued)

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

				March 31, 2023
Allowance for expected credit losses on commitments	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2022	**47,310**	**9,040**	**–**	**56,350**
Provision for expected credit losses				
Transfer to Stage 1[1]	**6,250**	**(6,250)**	**–**	**–**
Transfer to Stage 2[1]	**(10,491)**	**10,491**	**–**	**–**
Net remeasurement of the allowance for expected credit losses[2]	**(9,520)**	**14,701**	**–**	**5,181**
Net increase (decrease) in commitments	**13,683**	**(17,972)**	**–**	**(4,289)**
Foreign exchange and other movements	**(60)**	**(82)**	**–**	**(142)**
Balance as at March 31, 2023	**47,172**	**9,928**	**–**	**57,100**

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

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

				March 31, 2022
Allowance for expected credit losses on commitments	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2021	57,007	24,161	–	81,168
Provision for expected credit losses				
Transfer to Stage 1[1]	6,260	(6,260)	–	–
Transfer to Stage 2[1]	(10,227)	10,227	–	–
Net remeasurement of the allowance for expected credit losses[2]	(17,745)	7,961	–	(9,784)
Net increase (decrease) in commitments	12,184	(26,927)	–	(14,743)
Foreign exchange and other movements	(169)	(122)	–	(291)
Balance as at March 31, 2022	47,310	9,040	–	56,350

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

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

(in thousands of Canadian dollars)

11. Investments

BDC maintains a medium- to high-risk portfolio of debt investments and a high-risk portfolio of direct and indirect equity investments. All investments, which are held for a longer term, are non-current assets.

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

			March 31, 2023			March 31, 2022
Investment type	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Direct investments						
Debt[1]	**1,228,445**	**1,309,799**	**166,794**	1,087,611	1,169,465	154,005
Equity[2]	**2,319,740**	**1,758,907**	**67,753**	2,583,090	1,501,643	90,600
	3,548,185	**3,068,706**	**234,547**	3,670,701	2,671,108	244,605
Indirect equity investments in funds[3]	**2,194,327**	**1,259,942**	**1,181,926**	2,191,853	1,100,547	820,445
Investments	**5,742,512**	**4,328,648**	**1,416,473**	5,862,554	3,771,655	1,065,050

(1) Debt investments commitments included $1,417 in the Financing segment, $148,097 in the Growth & Transition Capital segment, $17,280 in the Venture Capital segment as at March 31, 2023 ($2,700, $132,882, $18,423, respectively, as at March 31, 2022).

(2) Direct equity commitments included $47,987 in the Venture Capital segment, $16,864 in the Capital Incentive Programs segment and $2,902 in the Credit Availability Program segment as at March 31, 2023 ($35,156, $52,995 and $2,449 respectively, as at March 31, 2022)

(3) Indirect equity in funds commitments included $590,369 in the Venture Capital segment, $591,557 in the Capital Incentive Programs segment as at March 31, 2023 ($493,197, $327,248 respectively, as at March 31, 2022). As at March 31, 2023, BDC had invested in 125 funds through its VC segment and 28 funds through its CIP segment (113 and 24 funds, respectively, as at March 31, 2022).

The following table summarizes outstanding debt investments by their contractual maturity date.

	Within 1 year	1 to 5 years	Over 5 years	Total cost	Total fair value
As at March 31, 2023	**110,490**	**928,201**	**271,108**	**1,309,799**	**1,228,445**
As at March 31, 2022	135,487	819,077	214,901	1,169,465	1,087,611

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

(in thousands of Canadian dollars)

11. Investments (continued)

The following tables summarize debt investments outstanding and commitments, classified by geographic distribution and by industry sector. Debt investments commitments include $72,057 at fixed rates and $94,737 at floating rates ($24,175 and $129,830 respectively, as at March 31, 2022) and their weighted-average effective interest rate was 9.9% (8.5% on debt commitments as at March 31, 2022), excluding non-interest return.

			March 31, 2023			March 31, 2022
Geographic distribution	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Newfoundland and Labrador	**16,007**	**20,464**	**5,000**	18,332	22,781	3,000
Prince Edward Island	**–**	**–**	**–**	6,304	6,516	–
Nova Scotia	**15,163**	**16,949**	**500**	10,472	11,147	6,000
New Brunswick	**16,618**	**19,613**	**1,000**	14,750	15,117	1,900
Quebec	**432,522**	**449,702**	**41,517**	397,740	417,004	40,196
Ontario	**462,076**	**495,500**	**90,948**	379,750	413,731	72,859
Manitoba	**12,966**	**12,883**	**–**	4,821	6,848	–
Saskatchewan	**31,839**	**33,803**	**–**	39,911	41,278	–
Alberta	**115,371**	**133,561**	**9,050**	137,469	155,825	10,550
British Columbia	**123,182**	**124,677**	**18,779**	77,266	78,423	19,500
Yukon	**2,257**	**2,220**	**–**	–	–	–
Northwest Territories and Nunavut	**444**	**427**	**–**	796	795	–
Debt investments	**1,228,445**	**1,309,799**	**166,794**	1,087,611	1,169,465	154,005

			March 31, 2023			March 31, 2022
Industry sector	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Service industries	**378,525**	**390,996**	**46,829**	313,981	329,296	52,069
Manufacturing	**297,457**	**328,054**	**34,780**	299,456	320,199	27,716
Wholesale and retail trade	**224,265**	**226,745**	**42,800**	182,976	190,572	43,125
Information industries	**136,900**	**145,124**	**27,940**	120,387	125,434	23,770
Construction	**88,239**	**89,308**	**5,015**	58,940	61,166	2,650
Resources	**64,944**	**80,486**	**7,630**	68,686	90,308	1,875
Educational services	**15,947**	**16,988**	**–**	11,258	11,823	–
Transportation and storage	**13,146**	**21,660**	**300**	22,215	30,030	300
Tourism	**8,016**	**9,432**	**1,500**	6,221	7,451	–
Other	**1,006**	**1,006**	**–**	3,491	3,186	2,500
Debt investments	**1,228,445**	**1,309,799**	**166,794**	1,087,611	1,169,465	154,005

The largest concentration of debt investments in one individual or closely related group of clients as at March 31, 2023, was 2.6% of total debt investments at cost (3.4% as at March 31, 2022). The debt investments portfolio is composed primarily of debentures.

(in thousands of Canadian dollars)

11. Investments (continued)

The concentration by industry sector for direct equity investments are listed below. For direct equity investments, the largest single investment represented 4.3% of the total direct equity investments at cost (4.78% as at March 31, 2022).

			March 31, 2023			March 31, 2022
Industry sector	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Information technology	**721,175**	**625,981**	**12,809**	1,071,185	544,467	26,287
Service industries	**403,824**	**219,879**	**6,197**	388,165	177,720	5,500
Manufacturing	**390,660**	**240,030**	**3,000**	240,103	183,614	26,385
Communications	**258,368**	**141,047**	**812**	227,157	126,245	603
Resources	**123,831**	**119,132**	**8,514**	105,171	97,598	21,109
Industrial	**93,375**	**81,356**	**4,725**	225,438	79,420	–
Electronics	**80,407**	**101,648**	**142**	54,090	89,597	50
Wholesale and Retail Trade	**63,635**	**47,398**	**–**	58,062	30,888	5,000
Medical and health	**59,599**	**52,469**	**9,325**	51,362	46,312	938
Biotechnology and pharmacology	**39,108**	**49,921**	**4,230**	54,176	57,230	4,230
Transportation and Storage	**37,155**	**19,106**	**15,000**	21,739	16,738	–
Energy	**22,563**	**21,919**	**2,159**	28,692	20,582	498
Educational services	**6,000**	**6,160**	**840**	–	–	–
Other	**20,040**	**32,861**	**–**	57,750	31,232	–
Direct equity investments	**2,319,740**	**1,758,907**	**67,753**	2,583,090	1,501,643	90,600

(in thousands of Canadian dollars)

11. Investments (continued)

Fair value sensitivity of key unobservable inputs

The following tables show the significant valuation techniques used to determine the fair value of financial instruments included in level 3 (refer to Note 6–*Classification and fair value of financial instruments* for additional information on hierarchy levels), and the sensitivity analysis of these unobservable inputs on their fair value.

				March 31, 2023
Investments	Fair value	Significant valuation techniques	Sensitivity of unobservable inputs	Fair value sensitivity of unobservable inputs
Total fair value—debt investments	**1,226,842**	Discounted Cash Flows (DCF)(2)	Discount rate: Increase 1% Decrease 1%	(34,947) 34,947
Total fair value—direct equity investments	**2,216,183**	Discounted Cash Flows (DCF)(2)	Discount rate: Increase 5% Decrease 5%	(2,481) 1,668
		Market Multiples	Comparability Discount +-5%(3)	(27,491) 27,491
		Transaction Prices	N/A	N/A
		Net Asset Value (NAV) or Liquidation Value	N/A	N/A
Total fair value—indirect equity investments in Funds	**2,194,327**	Net Asset Value (NAV)(1)	N/A	N/A
Total fair value Level 3	**5,637,352**			

				March 31, 2022
Investments	Fair value	Significant valuation techniques	Sensitivity of unobservable inputs	Fair value sensitivity of unobservable inputs
Total fair value—debt investments	1,085,415	Discounted Cash Flows (DCF)(2)	Discount rate: Increase 1% Decrease 1%	(32,539) 32,539
Total fair value—direct equity investments	2,360,578	Discounted Cash Flows (DCF)(2)	Discount rate: Increase 5% Decrease 5%	(12,478) 16,809
		Market Multiples	Comparability Discount +-5%(3)	(16,311) 16,311
		Transaction Prices	N/A	N/A
		Net Asset Value (NAV) or Liquidation Value	N/A	N/A
Total fair value—indirect equity investments	2,191,853	Net Asset Value (NAV)(1)	N/A	N/A
Total fair value Level 3	5,637,846			

(1) Fair value is determined by third parties, venture capital investment funds's general partners (GPs).
(2) An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.
(3) Range of unobservable inputs are not applicable to this valuation methodology.

(in thousands of Canadian dollars)

12. Leases

Right-of-use assets

	March 31, 2023
	Premise leases
Cost	
Balance as at April 1, 2022	**148,254**
Additions	**3,453**
Disposal	**(3,746)**
Balance as at March 31, 2023	**147,961**
Accumulated depreciation	
Balance as at April 1, 2022	**39,395**
Depreciation	**13,532**
Disposal	**(3,746)**
Balance as at March 31, 2023	**49,181**
Right-of-use assets as at March 31, 2023	**98,780**

	March 31, 2022
	Premise leases
Cost	
Balance as at April 1, 2021	145,446
Additions	3,752
Disposal	(944)
Balance as at March 31, 2022	148,254
Accumulated depreciation	
Balance as at April 1, 2021	26,408
Depreciation	13,931
Disposal	(944)
Balance as at March 31, 2022	39,395
Right-of-use assets as at March 31, 2022	108,859

(in thousands of Canadian dollars)

12. Leases (continued)

Lease liabilities

Maturity analysis—contractual undiscounted cash flow for lease liabilities

	March 31, 2023	March 31, 2022
Within 1 year	**15,454**	14,595
1 to 5 years	**57,063**	57,252
After 5 years	**51,423**	61,589
Total undiscounted lease liabilities	**123,940**	133,436

As at March 31, 2023, lease liabilities included in the Consolidated Statement of Financial Position totalled $116,163 of which $14,705 was short-term and $101,458 was long-term ($125,324 as at March 31, 2022 of which $13,962 was short-term and $111,362 was long-term).

Amounts recognized in the Consolidated Statement of Income

The following table summarizes amounts recognized in the Consolidated Statement of Income for the years ended March 31, 2023 and March 31, 2022.

	March 31, 2023	March 31, 2022
Interest on lease liabilities	**1,797**	1,758
Payments of non-lease components	**14,551**	15,296
	16,348	17,054

Lease commitments

BDC's future minimum non-fixed lease payments and cost for services related to the rental of premises are as follows:

	March 31, 2023	March 31, 2022
Within 1 year	**17,608**	15,944
1 to 5 years	**67,861**	82,916
After 5 years	**75,350**	73,114
Total	**160,819**	171,974

Leases not yet commenced to which BDC is committed amounted to $478 as at March 31, 2023 ($789.5 as at March 31, 2022).

Premise leases

BDC leases premises to provide office space for its head office and business centers. The leases typically run for a period of 5 to 10 years. Some leases include options to renew for additional periods.

Some leases also require BDC to make payments that relate to the property taxes, business taxes and water taxes levied on the lessor; these amounts are generally variable payments determined annually.

Renewal options

Some leases for premises contain extension options exercisable by BDC up to between 60 and 120 months depending on the contract terms. BDC assesses at lease commencement whether it is reasonably certain to exercise the extension options. BDC reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

(in thousands of Canadian dollars)

13.
Accounts payable, accrued, and other liabilities

	March 31, 2023	March 31, 2022
Financial instruments measured at amortized cost		
Current		
Salaries and benefits payable	**95,031**	86,067
Accounts payable	**10,608**	15,986
Deposits from clients	**56,436**	44,692
Other	**39,798**	18,758
	201,873	165,503
Non-current		
Long-term accrued liabilities	**107,689**	134,267
Other	**1,587**	1,536
	109,276	135,803
Deferred income[1]	**9,024**	9,703
Lease incentives[2]	**–**	258
Accounts payable, accrued and other liabilities	**320,173**	311,267

(1) Deferred income is classified as current liability.

(2) Lease incentives are non-current

(in thousands of Canadian dollars)

14. Borrowings

The table below presents the outstanding short-term notes.

				March 31, 2023		March 31, 2022
Maturity date	Effective rate	Currency	Principal amount(1)	Carrying value	Principal amount(1)	Carrying value
Short-term notes/ financial liabilities measured at amortized cost						
2023	0.126% - 1.003%	CAD	–	–	14,384,000	14,385,629
2024	4.315% - 4.470%	CAD	**19,736,500**	**19,767,097**	–	–
Total short-term notes				**19,767,097**		14,385,629

(1) The principal amount is presented in the original currency.

The table below presents the outstanding long-term notes by maturity.

					March 31, 2023		March 31, 2022
Maturity date	2023 Effective rate(1)	2022 Effective rate(1)	Currency	Principal amount(2)	Carrying value	Principal amount(2)	Carrying value
Long-term notes/financial liabilities measured at amortized cost							
2023		0.29% - 2.16%	CAD	–	–	900,000	902,805
2024	0.44% - 2.26%	0.44% - 2.26%	CAD	**1,140,000**	**1,144,120**	1,140,000	1,144,081
2025	0.43% - 4.20%	0.43% - 2.45%	CAD	**2,222,000**	**2,230,265**	1,770,000	1,776,615
2026	0.44% - 4.04%	0.44% - 2.27%	CAD	**1,291,000**	**1,296,976**	404,000	405,231
2027	0.49% - 3.72%	0.49% - 2.09%	CAD	**567,000**	**569,039**	585,000	586,997
2028	0.51% - 3.60%	0.51% - 1.46%	CAD	**834,000**	**837,269**	299,000	299,733
2029	1.20% - 3.31%	1.20% - 2.11%	CAD	**220,000**	**221,400**	145,000	145,728
2030	0.55% - 3.27%	0.55% - 1.73%	CAD	**250,000**	**250,666**	165,000	165,359
2031	1.42% - 1.77%	1.42% - 1.77%	CAD	**145,000**	**145,703**	145,000	145,598
2032	1.69% - 3.19%	1.69% - 1.71%	CAD	**230,000**	**230,766**	135,000	135,150
2033	2.68% - 3.31%	–	CAD	**110,000**	**110,629**	–	–
2034	3.31% - 3.31%	–	CAD	**30,000**	**30,244**	–	–
2035	3.31% - 3.31%	–	CAD	**30,000**	**30,245**	–	–
2036	3.31% - 3.31%	–	CAD	**30,000**	**30,248**	–	–
2037	–	–	CAD	**30,000**	**30,244**	–	–
Total long-term notes					**7,157,814**		5,707,297

(1) The effective rates on long-term notes refer to yield to maturity for fixed-rate issues and yield to reset for floating-rate issues.
(2) The principal amount is disclosed in the original currency.

(in thousands of Canadian dollars)

14. Borrowings (continued)

As at March 31, 2023 and March 31, 2022, all long-term notes are interest-bearing.

The following tables show the cash flows and non-cash changes for borrowings.

		Cash flows		Non–cash changes			
	Balance at beginning of period	Issuances	Repayments	Fair value changes	Accrued interests	Changes in foreign exchange rate	Balance at end of period
2023							
Measured at amortized cost							
Short–term notes	**14,385,629**	**35,485,000**	**(30,132,500)**	**–**	**28,968**	**–**	**19,767,097**
Long–term notes	**5,707,297**	**2,675,000**	**(1,234,000)**	**–**	**9,517**	**–**	**7,157,814**
	20,092,926	**38,160,000**	**(31,366,500)**	**–**	**38,485**	**–**	**26,924,911**

		Cash flows		Non-cash changes			
	Balance at beginning of period	Issuances	Repayments	Fair value changes	Accrued interests	Changes in foreign exchange rate	Balance at end of period
2022							
Measured at amortized cost							
Short-term notes	13,336,374	27,904,000	(26,856,000)	–	1,255	–	14,385,629
Long-term notes	4,908,573	1,223,000	(425,000)	–	724	–	5,707,297
	18,244,947	29,127,000	(27,281,000)	–	1,979	–	20,092,926
Designated at fair value through profit or loss							
Long-term notes	127,662	–	(124,139)	(2,794)	(730)	–	–
	18,372,609	29,127,000	(27,405,139)	(2,794)	1,250	–	20,092,926

15.

Net defined benefit asset or liability

BDC offers defined benefit plans that provide pension and other post-employment benefits to eligible employees. The defined benefit pension plans provide benefits based on years of service and average earnings at retirement, fully or partially indexed to the Consumer Price Index, depending on the option chosen by eligible employees hired before January 1, 2015, and partially indexed to the Consumer Price Index for employees hired after December 31, 2014. Other post-employment benefit plans include health, dental, critical illness and life insurance coverage, as well as a retirement allowance program for a closed group of employees who meet certain conditions.

These defined benefit plans expose BDC to actuarial risks, such as longevity risk, interest rate risk, inflation risk and market (investment) risk. The interest rate risk arises because, each year, the present value of the defined benefit obligation is calculated using a discount rate determined by reference to current market yields of high-quality corporate and provincial bonds, which may vary in the future. A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments. The investment risk arises because the actual return on the plan assets may not be sufficient to fulfill future obligations. The longevity risk arises because the present value of the obligation is calculated using projected cash flows based on a life expectancy table reflecting current expectations, which may change over time, and the inflation risk arises because the actual inflation rate in a given year may be different than the rate used for estimation purposes. For each of these risks, an unfavourable variance in any given year will result in an increase in the present value of the obligation and, ultimately, in higher costs. The risk that such unfavourable variances might arise is considered by the actuaries and management when reviewing the inputs to the annual actuarial valuation report.

BDC is the legal administrator of these plans and has implemented a governance structure, as follows:

— The Management Pension Funds Investment Committee (MPFIC) of BDC is established to act in an advisory capacity to the Human Resources Committee of the Board (HR Committee) on the Funds' investment strategies and to manage the funds according to the statements of investment policies. The MPFIC reports to the HR Committee and is chaired by the Treasurer.

— The HR Committee is responsible for design, funding, administration, communications and compliance related to the plans, as well as for overseeing all activities related to the investments of the funds of the Pension Plan for Employees of the Business Development Bank of Canada (registered pension plan) and BDC's supplemental pension plans (jointly referred to as the fund). The HR Committee reports directly to the Board, comprises Board members and is supported by BDC's MPFIC.

— The Board is responsible for overall monitoring of the plans and the fund, and for approving recommendations from the HR Committee.

The registered pension plan is governed according to applicable federal legislation, such as the *Pension Benefits Standards Act and the Income Tax Act*. The plan is under the jurisdiction of the Office of the Superintendent of Financial Institutions. Participants contribute a fixed percentage of their earnings to the plan, while BDC contributes the amount needed to maintain adequate funding, as dictated by the prevailing regulations. BDC may be required to take measures to offset any funding and solvency deficit by increasing its contributions. In addition, BDC pays the entire cost of the supplemental pension plans. The HR Committee is responsible for the investment and funding policies related to the registered and supplemental pension plans.

The registered pension plan is either partly or wholly funded in accordance with actuarially determined amounts required to satisfy employee benefit entitlements. Benefits accruing to members of the contributory component of the registered pension plan are also funded by contributions by plan participants. BDC's best estimate of contributions to be paid for fiscal 2024 for the registered pension plan is $30.3 million. The supplemental pension plans are partly funded by BDC and BDC's best estimate of contributions for fiscal 2024 is $9.6 million. The other benefit plans are wholly unfunded. Estimated BDC-paid benefits for other post-employment benefit plans (including the retirement allowance plan) for fiscal 2024 amount to $7.2 million.

(in thousands of Canadian dollars)

15. Net defined benefit asset or liability (continued)

The following tables provide aggregate, information concerning the defined benefit plans.

	Registered pension plan		Supplemental pension plans		Other plans		Total	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
Fair value of net plan assets at beginning of year	**1,858,640**	1,768,380	**93,223**	85,285	**–**	–	**1,951,863**	1,853,665
Interest income	**81,413**	61,973	**4,217**	3,138	**–**	–	**85,630**	65,111
Employer contributions	**51,964**	45,394	**8,919**	9,733	**–**	–	**60,883**	55,127
Participant contributions	**30,282**	25,317	**–**	-	**–**	–	**30,282**	25,317
Benefit payments from plan	**(54,933)**	(64,934)	**(5,900)**	(5,769)	**–**	–	**(60,833)**	(70,703)
Administrative expenses paid from plan assets	**(1,467)**	(1,235)	**(44)**	(48)	**–**	–	**(1,511)**	(1,283)
Remeasurements								
Return on plan assets (excluding interest income)	**(127,495)**	23,745	**(3,819)**	884	**–**	–	**(131,314)**	24,629
Fair value of net plan assets at end of year	**1,838,404**	1,858,640	**96,596**	93,223	**–**	–	**1,935,000**	1,951,863
Defined benefit obligation at beginning of year	**1,624,950**	1,763,584	**153,281**	165,180	**173,060**	198,086	**1,951,291**	2,126,850
Current service cost	**48,661**	56,910	**3,225**	3,928	**5,256**	7,273	**57,142**	68,111
Interest expense	**69,491**	60,589	**6,539**	5,680	**7,388**	6,822	**83,418**	73,091
Benefit payments from plan	**(54,933)**	(64,934)	**(5,900)**	(5,769)	**–**	–	**(60,833)**	(70,703)
Benefit payments from employer	**–**	–	**–**	–	**(6,553)**	(6,512)	**(6,553)**	(6,512)
Participant contributions	**30,282**	25,317	**–**	–	**–**	–	**30,282**	25,317
Remeasurements								
Effect of changes in demographic assumptions	**–**	–	**–**	–	**(2,647)**	(4,209)	**(2,647)**	(4,209)
Effect of changes in financial assumptions	**(180,712)**	(222,745)	**(11,781)**	(13,915)	**(18,293)**	(26,534)	**(210,786)**	(263,194)
Effect of experience adjustments	**40,199**	6,229	**12,494**	(1,823)	**4,840**	(1,866)	**57,533**	2,540
Defined benefit obligation at end of year	**1,577,938**	1,624,950	**157,858**	153,281	**163,051**	173,060	**1,898,847**	1,951,291
Total net defined benefit asset	**260,466**	233,690	**–**	–	**–**	–	**260,466**	233,690
Total net defined benefit liability	**–**	–	**61,262**	60,058	**163,051**	173,060	**224,313**	233,118

(in thousands of Canadian dollars)

15. Net defined benefit asset or liability (continued)

	Registered pension plan		Supplemental pension plans		Other plans		Total	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
Expense recognized in net income								
Current service cost	**48,661**	56,910	**3,225**	3,928	**5,256**	7,273	**57,142**	68,111
Interest expense on defined benefit obligation	**69,491**	60,589	**6,539**	5,680	**7,388**	6,822	**83,418**	73,091
Interest income on plan assets	**(81,413)**	(61,973)	**(4,217)**	(3,138)	**-**	-	**(85,630)**	(65,111)
Administrative expenses	**1,467**	1,235	**44**	48	**-**	-	**1,511**	1,283
Expense recognized in net income	**38,206**	56,761	**5,591**	6,518	**12,644**	14,095	**56,441**	77,374
Remeasurements recognized in OCI								
Effect of changes in demographic assumptions	**–**	–	**–**	–	**2,647**	4,209	**2,647**	4,209
Effect of changes in financial assumptions	**180,712**	222,745	**11,781**	13,915	**18,293**	26,534	**210,786**	263,194
Effect of experience adjustments	**(40,199)**	(6,229)	**(12,494)**	1,823	**(4,840)**	1,866	**(57,533)**	(2,540)
Return on plan assets (excluding interest income)	**(127,495)**	23,745	**(3,819)**	884	**–**	–	**(131,314)**	24,629
Remeasurement gain (loss) recognized in OCI	**13,018**	240,261	**(4,532)**	16,622	**16,100**	32,609	**24,586**	289,492

Net plan assets for BDC's registered and supplemental pension plans can be broken down into the following major categories of investments.

			March 31, 2023			March 31, 2022
Investment type	Quoted on active market	Unquoted	Total	Quoted on active market	Unquoted	Total
Investments						
Cash	**28,856**	**–**	**28,856**	60,639	–	60,639
Securities purchased under reverse repuchase agreements	**–**	**444,859**	**444,859**	–	635,079	635,079
Bonds						
Government of Canada	**–**	**354,343**	**354,343**	–	367,937	367,937
Canadian provinces	**–**	**499,041**	**499,041**	–	468,535	468,535
Canadian corporate	**–**	**322,850**	**322,850**	–	295,337	295,337
Equity investments						
Canadian equity	**–**	**90,246**	**90,246**	–	95,143	95,143
Global equity	**–**	**877,033**	**877,033**	–	865,933	865,933
Private market	**–**	**221,166**	**221,166**	–	206,529	206,529
Other	**–**	**49,928**	**49,928**	–	46,412	46,412
Investment–related liabilities						
Securities sold under repurchase agreements	**–**	**545,533**	**545,533**	–	648,258	648,258
Securities sold short	**–**	**407,789**	**407,789**	–	441,423	441,423
Fair value of net plan assets	**28,856**	**1,906,144**	**1,935,000**	**60,639**	**1,891,224**	**1,951,863**

(in thousands of Canadian dollars)

15. Net defined benefit asset or liability (continued)

The investment objective for the plan assets of the registered pension plan is to outperform, in the long term, the pension obligation growth rate to compensate for the risk taken. The HR Committee annually reviews the investment policy, which stipulates a diversification strategy, an acceptable level of investment risk and a commensurate rate of return. The plan assets must be invested in a portfolio of diversified securities, according to the investment policy. These investments must be well diversified by industrial sector, based on the industry classification of specific identified indices.

According to the policy, the portfolio can be divided into three large categories of investments: fixed-income assets, equity investments and private market investments. The target for fixed-income assets is set at 40.0% (40.0% in 2022) of the fair market value of the portfolio. The target for investments in equity should represent approximately 50% (50.0% in 2022) of the fair market value of the portfolio: 45.0% in global equity (45.0% in 2022) and 5.0% in Canadian equity (5.0% in 2022). The target for private market investments should represent approximately 10.0% (10.0% in 2022) of the fair market value of the portfolio. The positioning of the asset mix is reviewed monthly to assess the need for rebalancing.

The Pension Fund uses a Liability Driven Investing ("LDI") bond portfolio with an inflation overlay. As part of the inflation overlay, repurchase agreements are contracted to fund the purchase of federal real return bonds and reverse repurchase agreements are contracted to obtain the federal nominal bonds to deliver when selling them short. Such repurchase and reverse repurchase positions are rolled over on an annual basis to maintain a synthetic long federal real return bond and short federal nominal bond position that delivers the inflation performance. In addition, the Pension Fund uses a bond overlay with the LDI bond portfolio to achieve a target interest rate hedge ratio. The bond overlay uses repurchase agreements to fund the purchase of additional exposure to the LDI bond portfolio. The repurchase agreements are rolled over periodically (up to 1 year) to maintain the targeted interest rate hedge.

The significant actuarial assumptions adopted in measuring BDC's defined benefit obligation at year-end are as follows.

	Registered pension plan		Supplemental pension plans		Other plans	
	2023	2022	**2023**	2022	**2023**	2022
Discount rate	**5.05%**	4.35%	**5.05%**	4.35%	**5.05%**	4.35%
Inflation rate	**2.00%**	2.00%	**2.00%**	2.00%	**2.00%**	2.00%
Rate of salary increase	**3.20%**	3.20%	**3.20%**	3.20%	**3.20%**	3.20%
Rate of pension increase	**2.00%**	2.00%	**2.00%**	2.00%	**N/A**	N/A

The rates of inflation, salary increase, and pension increase in the above table for the fiscal 2023 year-end represent management's long-term view, which remains unchanged. The average rate of compensation increase is expected to be the inflation rate, plus 0.5% for productivity gains, plus an adjustment for merit and promotion. For the short-term, provisions have been added to these assumptions to reflect the recent and anticipated impact of the current inflationary environment on prices and wages. The resulting short-term assumptions in the first year are 3.70% inflation and 4.70% salary increases (3.50% and 5.70% respectively in fiscal 2022), and 4.70% for pension increases (3.80% for the first year and 2.37% for the second year in fiscal 2022).

The following mortality table was used to determine the present value of the benefit obligation:

— The 2014 Public Sector Mortality Table with mortality improvement Scale CPM-B, from the Canadian Pensioners' Mortality (CPM) study published by the Canadian Institute of Actuaries in February 2014, was used for 2023 and 2022.

(in thousands of Canadian dollars)

15. Net defined benefit asset or liability (continued)

As at March 31, 2023, the weighted-average duration of the defined benefit obligation was 14.9 years (2022: 16.1 years). For measurement purposes, health care cost trends were assumed to be as follows:

Medical (drugs)

— 5.42% in 2023, decreasing by 0.083% each year to 4.0% in 2040
(5.50% in 2022, decreasing by 0.083% each year to 4.0% in 2040)

Other medical costs

— 3.8% per year
(3.8% per year in fiscal 2022)

Dental costs

— 4.0% per year
(4.0% per year in fiscal 2022)

Weighted-average health care trend (Benefit obligation)

— 4.92% in 2023, decreasing by 0.056% each year to 3.96% in 2040
(4.96% in 2022, decreasing by 0.056% each year to 3.96% in 2040)

Sensitivity of assumptions

The present value of the defined benefit obligation is calculated, in the following sensitivity analyses, with the same method (the projected unit credit method) as the net defined benefit asset or liability recognized in the Consolidated Statement of Financial Position. The sensitivity analyses are based on a change in one assumption while all other assumptions are held constant. This analysis may not be representative of the actual change in the defined benefit obligation, as it is unlikely that a change in an assumption would occur in isolation; some of the assumptions may be correlated.

			March 31, 2023			March 31, 2022
Increase (decrease) of the present value of the defined benefit obligation	Registered pension plan	Supplemental pension plans	Other plans	Registered pension plan	Supplemental pension plans	Other plans
Discount rate						
Impact of: 1% increase	**(210,293)**	**(18,974)**	**(21,383)**	(229,995)	(19,258)	(24,270)
1% decrease	**272,930**	**23,718**	**27,031**	304,195	24,592	31,043
Rate of salary increase						
Impact of: 1% increase	**32,880**	**11,265**	**281**	39,034	10,774	340
1% decrease	**(32,798)**	**(6,876)**	**(266)**	(38,201)	(6,367)	(322)
Rate of price inflation						
Impact of: 1% increase	**244,543**	**16,859**	**427**	271,481	19,761	684
1% decrease	**(194,174)**	**(13,484)**	**(382)**	(211,976)	(14,078)	(587)
Rate of pension increase						
Impact of: 1% increase	**197,950**	**20,626**	**–**	219,200	21,877	–
1% decrease	**(160,341)**	**(16,637)**	**–**	(174,883)	(17,174)	–
Health care cost trend						
Impact of: 1% increase	**–**	**–**	**21,888**	–	–	24,813
1% decrease	**–**	**–**	**(17,678)**	–	–	(19,844)
Post–retirement mortality						
Impact of: 1 year older	**(34,296)**	**(4,124)**	**(4,265)**	(37,769)	(4,275)	(4,919)
1 year younger	**33,809**	**4,058**	**4,315**	37,443	4,230	5,000

(in thousands of Canadian dollars)

16. Share capital

An unlimited number of common shares, having a par value of $100 each, is authorized. As at March 31, 2023, there were 72,899,000 common shares outstanding (119,469,000 as at March 31, 2022).

As per BDC's Capital Management and Dividend Policy, on the date of approval of the fiscal 2023 Consolidated Financial Statements, a $337.0 million dividend was declared, representing $4.62 per share, based on fiscal 2023 performance and no dividend was paid in fiscal 2023 based on fiscal 2022 performance.

On June 8, 2022, BDC's Board of Directors authorized the repurchase of 50.0 million of its common shares for a cash payment of $5.0 billion to reduce the excess capital in Credit Availability Program (CAP) related to COVID-19 initiatives. The repurchase was finalized by March 31, 2023.

On November 16, 2022, BDC issued 3,430,000 common shares for cash proceeds of $343.0 million, which represents a capital injection in support of the Canada Digital Adoption Program. (4,350,000 common shares were issued for $435.0 million in 2022 in support of the Cleantech Practice, Venture Capital Catalyst Initiative and the Indigenous Growth Fund).

Reconciliation of the number of common shares issued and outstanding

	2023	2022
As at beginning of the year	**119,469,000**	115,119,000
Shares issued	**3,430,000**	4,350,000
Shares repurchased	**(50,000,000)**	–
As at end of the year	**72,899,000**	119,469,000

17. Capital management

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 (loss). BDC's ratio as at March 31, 2023 was 1.9:1 (1.2:1 as at March 31, 2022).

In addition, the amount of paid-in-capital, together with any contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments), must not at any time exceed $20.0 billion per the *Business Development Bank of Canada Act*, 1995 amended in March 2020. As at March 31, 2023, these amounts totalled $7.3 billion ($12.0 billion as at March 31, 2022).

During 2023 and 2022, BDC met both of these statutory limitations.

(in thousands of Canadian dollars)

17. Capital management (continued)

Capital adequacy

BDC's Capital Management Framework is outlined in its Capital Management and Dividend Policy and is aligned with:

— BDC's strategy, the Risk Appetite Statement and the Enterprise Risk Management Policy

— The Department of Finance's Capital and Dividend Policy Framework for Financial Crown Corporations

Although BDC is not regulated by the Office of the Superintendent of Financial Institutions (OSFI), its Capital Management Framework is continuously refined to better align with OSFI's guidelines and relevant industry practices, while accounting for factors unique to BDC's mandate as a financial Crown corporation.

The key principles behind BDC's Capital Management Framework are that:

— BDC has adequate capital to protect itself against risks that could adversely impact its ability to deliver on its mandate and minimize the risk of recapitalization through a complete economic cycle; and

— Capital in excess of BDC's target capital is available to be returned to the shareholder in the form of dividends, at the discretion of BDC's Board of Directors

BDC monitors its capital status on an ongoing basis by comparing its available capital to its required capital.

Available capital based on BDC's internal capital adequacy assessment process (ICAAP) is composed of equity attributable to BDC's shareholder and adjustments aligned with industry practices.

BDC's ICAAP excludes Capital Incentive Programs (CIP) and the Credit Availability Program (CAP), as these government programs are managed by BDC under a specific capital allocation from the shareholder.

The following table shows BDC's available capital reconciliation:

	March 31, 2023	March 31, 2022
Equity attributable to BDC's shareholder	**16,138,775**	20,404,183
Adjustments to available capital		
AOCI on cash flow hedges	**–**	(1,528)
Intangible assets, net of accumulated amortization	**(47,646)**	(39,727)
Net defined benefit asset	**(260,466)**	(233,691)
Adjustments for allowance for expected credit losses	**456,494**	412,045
Portion of equity attributable to CIP	**(2,035,800)**	(2,017,633)
Portion of equity attributable to CAP	**(3,480,060)**	(8,079,491)
Available capital	**10,771,297**	10,444,158

BDC's required capital represents the capital required to support BDC's risk profile and includes the following element:

— Economic Capital quantifies the capital required to cover credit, investment, operational, business and market risks.

BDC's target capital level also factors in a management operating range to mitigate the impact of unplanned capital volatility. It accounts for differences between planned and actual level of activities, as well as volatility in assumptions that are difficult to predict. The management operating range allows any excess capital over target capital to be paid as dividends to the shareholder in the following fiscal year, subject to the discretion of the Board of Directors. Refer to Note 16—*Share capital* for information on dividends paid.

17. Capital management (continued)

BDC's key measure for determining and assessing capital adequacy is its internal capital ratio, which is expressed as the level of available capital over the economic capital required. As set out in BDC's Capital Management and Dividend Policy, different management zones have been established to closely monitor the internal capital ratio through a complete business cycle, which include a risk limit, a tolerance threshold and a targeted level. BDC's target capital is revised annually based on BDC's Corporate Plan forecasts for internal capital requirements and the management operating range, as well as any capital required by a potential stress testing capital shortfall, identified as part of the enterprise-wide stress testing program.

As at March 31, 2023, BDC generated excess capital, as per BDC's Capital Management and Dividend Policy. On the date of approval of the fiscal 2023 Consolidated Financial Statements, a dividend of $337.0 million was declared based on fiscal 2023 performance.

18.
Risk management

Governance

Risk is an inherent feature of the financial sector. BDC has strong risk management practices that emphasize risk identification, risk management, transparency and accountability.

Nature and extent of risks arising from financial instruments

BDC is exposed to the following financial risks: credit risk, market risk and liquidity risk. This note provides the definitions of these risks and describes BDC's risk management policies and risk measurements.

Credit risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to BDC. For the purposes of credit risk management activities, BDC distinguishes between credit risk arising from asset-backed securities issuers, borrowers and investees, and counterparties to Treasury activities.

Asset-backed securities issuers

The ABS portfolio consists of investment-grade senior and subordinated notes issued by way of private placement. ABS are fully backed by security consisting of portfolios of loans and leases on vehicles and equipment, as well as dealer floor plan loans, for which there is no significant concentration risk.

In order to mitigate the credit risk on the underlying asset portfolio, generally, there are structural or credit protections. Also, the notional value of the subordinated notes does not exceed 10% of the senior notes. In addition, securities purchased must be of a certain grade. At time of purchase, senior notes must be, at a minimum, an implied investment grade. The implied rating is calculated by BDC using the same scale as rating agencies. The rating is derived by evaluating the transaction structure and the credit enhancement supporting the securities.

Subsequently, BDC receives portfolio reports that describe the performance of the securities, along with the cash flows associated with the collateral, in order to evaluate the securities. In addition, BDC uses an internal risk rating system to monitor credit risk.

As at March 31, 2023, and March 31, 2022, none of the notes were past due and none had experienced a deterioration in their credit rating. The maximum exposure to credit risk of ABS is limited to the carrying value of the securities. Refer to Note 9—*Asset-backed securities*, for additional information on this portfolio.

BDC is also exposed to credit risk on its ABS commitments. Maximum exposure to credit risk is limited to the committed amount. Refer to Note 9—*Asset-backed securities* for additional information.

18. Risk management (continued)

Nature and extent of risks arising from financial instruments (continued)

Credit risk (continued)

Borrowers and investees

BDC uses a number of policies, directives and procedures to manage credit exposures from loans and investments, which include:

— the use of an internal credit risk rating classification;

— credit policies, guidelines and directives, communicated to officers whose activities and responsibilities include credit granting and risk assessment, which ensure early recognition of problem accounts and immediate implementation of steps to protect BDC's assets;

— independent reviews by Internal Audit of credit valuation, risk classification and credit management procedures, which include reporting the results to senior management, the President and Chief Executive Officer, and the Audit and Conduct Committee;

— approval of larger transactions by the Board Risk Committee and the Board Investment Committee, based on recommendations made by Management;

— monitoring of portfolio concentrations to protect BDC from being overly concentrated in any one province or industry sector;

— monitoring to ensure that exposure to a single borrower or associated borrowers, unless approved by the Board of Directors, does not represent more than 10% of the shareholder's equity;

— an annual review process to ensure appropriate classification of individual credit facilities;

— the conduct of semi-annual valuations of investments; and

— a watchlist report recording accounts with evidence of weaknesses, as well as an impaired loan report covering loans that show impairment.

The maximum exposure to credit risk from borrowers and investees is limited to the carrying amount of the loans and debt investments. Refer to Note 10—*Loans* and Note 11—*Investments* for additional information on loans and investment portfolios.

BDC is also exposed to credit risk on its loan commitments and financial guarantees, which include loan guarantees. Maximum exposure to credit risk is limited to the committed amount or, in the case of financial guarantees, to the maximum amount payable under the guarantees. Refer to Note 10—*Loans* and Note 21—*Guarantees and contingent liabilities* for additional information.

Counterparties to Treasury activities

Credit risk inherent to Treasury activities is the risk that BDC faces through the non-performance of a counterparty and the possible event of its default. For the purpose of BDC's Treasury activities, a distinction is made between credit risk arising from investments held in the liquidity portfolio (issuer risk) and credit risk arising from the use of derivative products (counterparty risk).

The notional amounts of derivative financial instruments held by BDC are not indicative of the credit risk exposure associated with the contracts. The risk of loss is related to the possibility that a counterparty to a transaction will not perform as agreed. In the event of default by a counterparty, the risk to BDC in these transactions would be limited to the prevailing market values of transactions that are in an unrealized gain position and uncollateralized.

BDC limits its exposure to credit risk by dealing only with financial institutions that have credit ratings in accordance with the Treasury Risk Policy. As at March 31, 2023, and March 31, 2022, BDC had no significant concentrations in any individual financial institution.

(in thousands of Canadian dollars)

18. Risk management (continued)

Nature and extent of risks arising from financial instruments (continued)

Credit risk (continued)

Counterparties to Treasury activities (continued)

BDC continually monitors its position and the credit ratings of its counterparties and seeks to limit its credit exposure with respect to contracts in a favourable position by entering into master netting agreements with counterparties.

Counterparty credit risk exposure	Counterparty ratings
	A- to A+
Gross positive replacement cost	**11,603**
Impact of master netting agreements	**(117)**
Replacement cost (after master netting agreements)—March 31, 2023	**11,486**
Replacement cost (after master netting agreements)—March 31, 2022	12,167
Number of counterparties	
March 31, 2023	**1**
March 31, 2022	1

Lastly, to manage the credit risk arising from an issuer of cash equivalents, the Treasury Risk Management Unit ensures the liquidity portfolio is composed of securities issued or guaranteed by entities that have a minimum credit rating of A.

The following table sets out information about the credit quality of cash and cash equivalents.

Counterparty rating	March 31, 2023	March 31, 2022
Rated AA- to AA+	**268,910**	298,042
Rated A- to A+	**610,009**	608,344
Cash and cash equivalents	**878,919**	906,386

Market risk

Market risk is the risk of incurring losses as a result of changes in market factors, such as interest rates, foreign exchange rates, the prices of equities or commodities, or other relevant market factors. Market risk for BDC also arises from volatile unpredictable market events affecting the value of equity investments.

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. For BDC, the risk and potential variability in earnings arise primarily when cash flows associated with interest-sensitive assets and liabilities have different repricing dates. A positive interest rate gap exists when interest-sensitive assets exceed interest-sensitive liabilities for a specific maturity or repricing period. A positive gap will result in an increase in net interest income when market interest rates rise, since assets reprice earlier than liabilities. The opposite impact will occur when market interest rates fall. As set out in the Treasury Risk Policy, BDC manages market risk by matching the terms of assets and liabilities.

To manage the interest rate gap on its interest-sensitive assets and interest-sensitive liabilities, BDC establishes policy guidelines for interest rate gap positions, regularly monitors the Bank's situation and decides future strategies in light of changing market conditions. The objective is to manage the interest rate risk using sound and prudent guidelines. Interest rate risk policies included in the Treasury Risk Policy are approved and reviewed at least annually by the Board of Directors.

Exposure to interest rate risk is controlled by managing the size of the static gap positions between interest-sensitive assets and interest-sensitive liabilities. Gap analysis is supplemented by scenario analysis of the asset liability portfolio structure and by a duration analysis. The interest rate gap is measured daily.

(in thousands of Canadian dollars)

18. Risk management (continued)

Nature and extent of risks arising from financial instruments (continued)

Market risk (continued)

Interest rate risk (continued)

Exposure to interest rate risk is also monitored using a net interest income sensitivity stress test. A parallel and sustainable 200-basis-point shock on the Canadian yield curve is simulated and the impact on net interest income has to be less than 10%. The following table discloses the 12-month net interest income sensitivity stress test:

	March 31, 2023		March 31, 2022	
	200 basis points in interest rate		200 basis points in interest rate	
	Increase	Decrease	Increase	Decrease
Net interest income sensitivity	**44,000**	**(44,000)**	43,600	(44,000)
Net interest income sensitivity (%)	**3.21**	**(3.21)**	3.14	(3.16)

The following table summarize BDC's interest rate sensitivity position based on the difference between the carrying value of assets and the carrying value of liabilities and equity, grouped by the earlier of contractual repricing or maturity date. This gap analysis is a static measurement of interest rate-sensitive gaps at a specific time. These gaps can change significantly in a short period of time.

	Immediately rate-sensitive	Within 3 months(1)	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive(2)	Allowance and fair value	Total
Assets								
Cash and cash equivalents	**878,919**	**–**	**–**	**–**	**–**	**–**	**–**	**878,919**
Derivative assets	**–**	**–**	**–**	**–**	**–**	**11,603**	**–**	**11,603**
Asset-backed securities	**–**	**–**	**–**	**149,354**	**1,056,538**	**–**	**(29,792)**	**1,176,100**
Loans	**19,880,412**	**1,479,265**	**1,608,183**	**9,720,077**	**3,358,440**	**930,365**	**(1,044,039)**	**35,932,703**
Investments	**787,048**	**1,129**	**4,494**	**300,172**	**98,369**	**3,137,436**	**1,413,864**	**5,742,512**
Other	**–**	**–**	**–**	**–**	**–**	**543,085**	**–**	**543,085**
	21,546,379	**1,480,394**	**1,612,677**	**10,169,603**	**4,513,347**	**4,622,489**	**340,033**	**44,284,922**
Liabilities and equity								
Other	**–**	**–**	**–**	**–**	**–**	**1,214,993**	**–**	**1,214,993**
Derivative liabilities	**–**	**–**	**–**	**–**	**–**	**117**	**–**	**117**
Short-term notes	**–**	**19,767,097**	**–**	**–**	**–**	**–**	**–**	**19,767,097**
Long-term notes	**–**	**307,569**	**836,551**	**4,933,548**	**1,080,146**	**–**	**–**	**7,157,814**
Total equity	**–**	**–**	**–**	**–**	**–**	**16,144,901**	**–**	**16,144,901**
	–	**20,074,666**	**836,551**	**4,933,548**	**1,080,146**	**17,360,011**	**–**	**44,284,922**
Total gap position before derivatives								
March 31, 2023	**21,546,379**	**(18,594,272)**	**776,126**	**5,236,055**	**3,433,201**	**(12,737,522)**	**340,033**	**–**
March 31, 2022	20,996,989	(13,461,036)	763,351	4,575,226	3,332,001	(17,168,662)	962,132	–
Total derivative position	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total gap position March 31, 2023	**21,546,379**	**(18,594,272)**	**776,126**	**5,236,055**	**3,433,201**	**(12,737,522)**	**340,033**	**–**
Total gap position March 31, 2022	20,996,989	(13,461,036)	763,351	4,575,226	3,332,001	(17,168,662)	962,132	–

(1) This grouping includes asset-backed securities, short-term notes and long-term notes for which interest rates reset monthly. The short- term notes and long-term notes are used to fund floating-rate assets, the majority of which are categorized as immediately rate sensitive.

(2) Assets, liabilities and equities that are non-rate sensitive have no specific maturity.

(in thousands of Canadian dollars)

18. Risk management (continued)

Nature and extent of risks arising from financial instruments (continued)

Market risk (continued)

Foreign exchange risk

Foreign exchange risk arises when there is a difference between assets and liabilities held in foreign currencies. Foreign exchange risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. BDC's policy and practice is to economically hedge debt investments and loans in foreign currencies so that the residual exposure to foreign exchange risk is not significant. Equity investments are hedged following the occurrence of a liquidity event. Refer to Note 8—*Derivative financial instruments*, for more information.

Venture capital market risk

Unpredictable financial markets, as well as the presence and appetite of buyers, dictate the timing of venture capital divestitures. This timing, in turn, affects the value of BDC equity investments. To manage this risk, BDC uses a rigorous selection process of investments and works closely with its investee companies. BDC also lowers the risk of its equity investments by applying conservative valuations when purchasing interests in a company, co-investing with other venture capital investors and monitoring investments regularly.

The following table represents a sensitivity analysis that aims to assess potential impact of general market repricing on fair value of equity investments.

				March 31, 2023
		Fair value movements under sensitivity shocks		
	Fair value	-10%	-25%	-50%
Venture Capital	**2,865,447**	**(286,545)**	**(716,362)**	**(1,432,724)**
Capital Incentive Programs	**1,514,625**	**(151,463)**	**(378,656)**	**(757,313)**
Credit Availability Program	**133,995**	**(13,400)**	**(33,499)**	**(66,998)**
March 31, 2023	**4,514,067**	**(451,408)**	**(1,128,517)**	**(2,257,035)**

				March 31, 2022
		Fair value movements under sensitivity shocks		
	Fair value	-10%	-25%	-50%
Growth & Transition Capital	26,914	(2,691)	(6,729)	(13,457)
Venture Capital	3,212,969	(321,297)	(803,242)	(1,606,485)
Capital Incentive Programs	1,382,487	(138,249)	(345,622)	(691,244)
Credit Availability Program	152,573	(15,257)	(38,143)	(76,287)
March 31, 2022	4,774,943	(477,494)	(1,193,736)	(2,387,473)

As BDC's equity investments are fully capitalized, any movement in equity prices has a null effect on the capital status as both available and required capital move simultaneously by the same level. Nonetheless, movements in equity prices will impact net income as well as proceeds from divesture of investments. To manage this risk, BDC uses a rigorous selection process of investments and works closely with its investee companies.

Management reviews all transactions. Larger investment transactions that exceed delegations residing with management are recommended by management to the Board Investment Committee which, in turn, may recommend them to the Board, as required. Other transactions will be recommended for review by the Board Risk Committee, more specifically by the Executive Vice President and Chief Risk Officer.

(in thousands of Canadian dollars)

18. Risk management (continued)

Nature and extent of risks arising from financial instruments (continued)

Liquidity risk

Liquidity risk is the risk resulting from the difficulty in converting BDC's assets into cash for the purpose of servicing and refinancing its debt, for the timely disbursement of its committed loans and investments and for payment of its operating expenses and dividends.

The following tables detail contractual maturities of financial liabilities and commitments and guarantees, and are based on notional amounts, which may differ from carrying values.

	Within 1 year	1 to 5 years	Over 5 years	No fixed maturity	Total
Accounts payable and accrued liabilities	**203,461**	**107,689**	**–**	**–**	**311,150**
Short–term notes[(1)]	**20,047,740**	**–**	**–**	**–**	**20,047,740**
Long–term notes[(1)]	**1,284,416**	**5,213,472**	**1,155,959**	**–**	**7,653,847**
	21,535,617	**5,321,161**	**1,155,959**	**–**	**28,012,737**
Commitments					
Asset–backed securities[(2)]	**755,866**	**–**	**–**	**–**	**755,866**
Loans	**4,138,082**	**–**	**–**	**–**	**4,138,082**
Investments	**166,794**	**–**	**–**	**1,249,679**	**1,416,473**
	5,060,742	**–**	**–**	**1,249,679**	**6,310,421**
Loan guarantees	**113,156**	**180,841**	**3,025,947**	**–**	**3,319,944**
Total as at March 31, 2023	**26,709,515**	**5,502,002**	**4,181,906**	**1,249,679**	**37,643,102**

(1) Short-term and long-term notes reflect the future payments that will be paid as per the contractual note agreements.
(2) Commitments are disclosed at the earliest possible liquidity event.
(3) Commitments are mainly related to participation in funds in which BDC is legally committed to invest. Timing of investments will vary, depending on funds' investment requirements, and should occur over the next several years.

	Within 1 year	1 to 5 years	Over 5 years	No fixed maturity	Total
Accounts payable and accrued liabilities	167,039	134,267	–	–	301,306
Short–term notes[(1)]	14,425,712	–	–	–	14,425,712
Long–term notes[(1)]	976,151	4,044,100	911,469	–	5,931,720
	15,568,902	4,178,367	911,469	–	20,658,738
Commitments					
Asset–backed securities[(2)]	439,836	–	–	–	439,836
Loans	3,698,715	–	–	–	3,698,715
Investments	217,769	–	–	847,281	1,065,050
	4,356,320	–	–	847,281	5,203,601
Loan guarantees	66,534	206,421	3,182,775	–	3,455,730
Total as at March 31, 2022	19,991,756	4,384,788	4,094,244	847,281	29,318,068

(1) Short-term and long-term notes reflect the future payments that will be paid as per the contractual note agreements.
(2) Commitments are disclosed at the earliest possible liquidity event.
(3) Commitments are mainly related to participation in funds in which BDC is legally committed to invest. Timing of investments will vary, depending on funds' investment requirements, and should occur over the next several years.

18. Risk management (continued)

Nature and extent of risks arising from financial instruments (continued)

Liquidity risk (continued)

A lack of marketability could make it expensive or even impossible to liquidate the securities held by BDC, which could also compromise the short-term continuity of normal business. To avoid any liquidity-related disruptions, BDC ensures that cash is invested in highly liquid and high-quality securities that can be sold to a wide range of counterparties without incurring a substantial loss.

BDC's liquidity risk management objective is to mitigate this risk by:

— providing for a minimum level of short-term assets over short-term liabilities to cover commitment, market, systemic and operational risks;

— minimizing the unproductive cash balance in the cash account; and

— achieving a return on liquid assets in excess of cost while protecting BDC's capital.

The Treasury Risk Policy establishes risk tolerance parameters, provides delegation of authority to BDC's Treasury Department to transact in approved products and provides limits related to specific measures. The policy governs management, measurement, monitoring and reporting requirements related to liquidity. Paragraph 18(3) of the BDC Act defines the instruments in which BDC may invest its liquidity.

BDC's liquidity management practices and processes reinforce its risk mitigation strategies by assigning prudent liquidity levels, concentration requirements and maturity profile requirements, as outlined below:

— The minimum liquidity level covers at least the net outflows scheduled for the next five working days. As at March 31, 2023 the maximum liquidity level was not to exceed 15 days of net cash outflows (15 days as at March 31, 2022)

— The maturity profile requires 75% of the total liquidity to be invested in securities maturing within 100 days.

— The concentration profile requires that no more than 50% of the portfolio be invested in securities issued or guaranteed by Canadian provinces.

The following tables show the results of BDC's liquidity risk management:

Liquidity level (in millions of Canadian dollars)

	Minimum	Actual	Maximum
As at March 31, 2023	**–**	**825**	**1,203**
As at March 31, 2022	–	869	1,050

Maturity and concentration limits	Limits	**March 31, 2023**	March 31, 2022
Cash and cash equivalents maturing within 100 days	Min 75%	**100%**	100%
Cash and cash equivalents in Canadian provinces	Max 50%	**0%**	0%

The Treasury Risk Management Unit identifies, measures and monitors these liquidity limits daily. It reports any deviations from these liquidity limits to the Board of Directors. The Treasury Risk Management Unit determines whether the limits remain valid or whether changes to assumptions and limits are required in light of internal or external developments. This process ensures that close links are maintained between liquidity, market and credit risks.

(in thousands of Canadian dollars)

19. Additional information on the Consolidated Statement of Income

Additional information on financial instruments

	FVTPL and designated at FVTPL	FVOCI	Amortized Cost	2023 Total
Interest income(1)	**134,502**	**27,099**	**2,259,007**	**2,420,608**
Interest expense	**–**	**–**	**491,877**	**491,877**
Fee and other income	**35,952**	**–**	**64,342**	**100,294**

(1) Interest income includes $75,332 for impaired loans in 2023.

	FVTPL and designated at FVTPL	FVOCI	Amortized Cost	2022 Total
Interest income(1)	101,462	16,475	1,576,480	1,694,417
Interest expense	84	–	105,787	105,871
Fee and other income	43,055	–	64,670	107,725

(1) Interest income includes $86,566 for impaired loans in 2022.

	FVTPL	Designated as at FVTPL	FVOCI	Amortized Cost	2023 Total
Total gains (losses)					
Net realized gains (losses) on investments	**16,700**	**–**	**–**	**–**	**16,700**
Net change in unrealized appreciation (depreciation) of investments	**(830,289)**	**–**	**–**	**–**	**(830,289)**
Net realized foreign exchange gains (losses) on assets	**203**	**–**	**(56)**	**14,091**	**14,238**
Net unrealized foreign exchange gains (losses) on assets	**156,618**	**–**	**182**	**46,292**	**203,092**
Net realized foreign exchange gains (losses) on foreign exchange forward contracts	**(53,180)**	**–**	**–**	**–**	**(53,180)**
Net unrealized foreign exchange gains (losses) on foreign exchange forward contract	**(681)**	**–**	**–**	**–**	**(681)**
Net foreign exchange gains (losses)	**102,960**	**–**	**126**	**60,383**	**163,469**
Net realized gains (losses) on other financial instruments	**14,339**	**–**	**–**	**(18,858)**	**(4,519)**
Net gains (losses) on other financial instruments	**14,339**	**–**	**–**	**(18,858)**	**(4,519)**
	(696,290)	**–**	**126**	**41,525**	**(654,639)**

(in thousands of Canadian dollars)

19. Additional information on the Consolidated Statement of Income (continued)

Additional information on financial instruments (continued)

					2022
	FVTPL	Designated as at FVTPL	FVOCI	Amortized Cost	Total
Total gains (losses)					
Net realized gains (losses) on investments	576,019	–	–	–	576,019
Net change in unrealized appreciation (depreciation) of investments	915,722	–	–	–	915,722
Net realized foreign exchange gains (losses) on assets	(2,394)	–	(59)	(4,307)	(6,760)
Net unrealized foreign exchange gains (losses) on assets	(12,191)	–	43	3,234	(8,914)
Net realized foreign exchange gains (losses) on foreign exchange forward contracts	(9,159)	–	–	–	(9,159)
Net unrealized foreign exchange gains (losses) on foreign exchange forward contracts	12,268	–	–	–	12,268
Net foreign exchange gains (losses)	(11,476)	–	(16)	(1,073)	(12,565)
Net realized gains (losses) on other financial instruments	578	–	–	(32)	546
Net unrealized gains (losses) on other financial instruments	(2,718)	2,794	–	–	76
Net gains (losses) on other financial instruments	(2,140)	2,794	–	(32)	622
	1,478,125	2,794	(16)	(1,105)	1,479,798

Other additional information

	2023	2022
Salaries and benefits		
Salaries and other benefits	**442,511**	467,458
Defined benefit plan expense (Note 15)	**56,441**	77,374
	498,952	544,832
Other expenses		
Professional and outsourcing fees	**114,882**	91,263
Computers and software, including amortization and depreciation	**59,463**	53,335
Communications, advertising and promotion	**30,572**	20,784
Other	**18,731**	22,470
	223,648	187,852

20.
Segmented information

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

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

— **Financing**: provides secured, partially secured and unsecured loans with a focus on small and medium-sized enterprises across Canada. It also purchases investments in asset-backed securities through the Funding Platform for Independent Lenders (F-PIL). These securities are backed by vehicle and equipment loans and leases, as well as dealer floor plan loans.

— **Advisory Services**: provides advisory services, supports high-impact firms, and provides group programs and other services related to business activities such as free online and educational content.

— **Growth & Transition Capital**: includes debt investments by way of flexible subordinated debt, with or without convertible features, and quasi-equity financing, which offer flexible repayment terms with limited collateral, to support the growth and transition projects of SMEs.

— **Venture Capital**: includes investments in Venture capital (VC), Growth Equity (GE) and Intellectual Property (IP) and the new Climate Tech Fund II. Venture capital segment provides equity and debt investments to cover every stage of a technology-based company's development cycle, from seed funding to expansion. Equity investments in VC are focused on fast-growing companies having promising positions in their respective marketplaces and strong growth potential. BDC also makes indirect equity investments via venture capital investment funds. GE are equity investments to support the growth of high-potential companies across Canada with a focus on mid-size businesses. The IP Fund provides debt investments targeted to companies that are rich in intellectual property. The Climate Tech Fund II are equity investments in Canadian cleantech companies to contribute to Canada's transition to a sustainable, low-carbon economy.

— **Capital Incentive Programs**: includes direct and indirect equity investments in Venture Capital Action Plan (VCAP), Venture Capital Catalyst Initiative (VCCI), Cleantech Practice and Indigenous Growth Fund (IGF). VCAP is a federal government initiative to increase private sector venture capital financing for high-potential, innovative Canadian businesses. VCAP invests primarily in early-stage and mid-stage venture capital funds, and directly in companies across Canada. It supports the creation of large private sector-led funds of funds and also assists existing high-performing funds in partnership with institutional investors, corporate strategic investors and interested provinces. VCCI is also a government-sponsored initiative whereby capital is made available through BDC over three years to provide late-stage venture capital to support the growth of innovative start-ups. Through an envelope entrusted by the federal government, Cleantech Practice provides equity investments to promising clean technology firms to help build globally competitive and commercially sustainable Canadian cleantech firms. IGF is an investment fund that will provide access to capital to Indigenous entrepreneurs across all industries via business loans from a network of Aboriginal Financial Institutions throughout the country.

— **Credit Availability Program**: with the support of our sole shareholder, the Government of Canada, we launched a series of measures to help Canadian businesses during the COVID-19 crisis. These measures are combined under this segment to distinguish COVID-19 related measures from our core activities. The initiatives extend eligibility criteria to ensure we are meeting the urgent needs of as many viable businesses as possible. They include the Business Credit Availability Program, which is delivered in collaboration with private sector lenders, Highly Affected Sectors Credit Availability Program under which, financial institutions provide loans 100% guaranteed by BDC and measures delivered directly by BDC. As small businesses adapt to the lasting impacts of the COVID-19 pandemic, our shareholder launched the Canada Digital Adoption Program (CDAP), to help small and medium-sized enterprises adopt digital technologies and stay competitive by providing access to expertise and funding with interest free loans from BDC.

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

Interest expense is allocated to each operating segment based on its business portfolio and the capital attributed to the segment. The attribution of capital to BDC's business segments is maintained in accordance with BDC's ICAAP and is consistently aligned to the economic risks of each specific business segment. Refer to Note 17—*Capital management*, for more information.

(in thousands of Canadian dollars)

20. Segmented information (continued)

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, which are all held in Canada, are managed separately based on BDC's business segments. None of the other assets or liabilities are managed by segment.

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

							March 31, 2023
	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Capital Incentive Programs	Credit Availability Program
Interest income	2,420,608	2,134,472	–	120,649	2,560	6,349	156,578
Interest expense[(1)]	491,877	668,048	–	18,911	260	(16,517)	(178,825)
Net interest income	**1,928,731**	**1,466,424**	**–**	**101,738**	**2,300**	**22,866**	**335,403**
Net realized gains (losses) on investments	16,700	(607)	–	(6,070)	35,352	(5,966)	(6,009)
Revenue from Advisory Services	38,249	–	38,249	–	–	–	–
Fee and other income	100,294	27,211	–	25,070	7,505	639	39,869
Net revenue	**2,083,974**	**1,493,028**	**38,249**	**120,738**	**45,157**	**17,539**	**369,263**
Provision for expected credit losses	(343,940)	(85,911)	–	–	–	–	(258,029)
Net change in unrealized appreciation (depreciation) of investments	(830,289)	1,876	–	(20,210)	(804,764)	3,446	(10,637)
Net foreign exchange gains (losses)	163,469	14,793	–	(7,229)	150,274	4,914	717
Net gains (losses) on other financial instruments	(4,519)	14,339	–	–	–	–	(18,858)
Income (loss) before operating and administrative expenses	**1,068,695**	**1,438,125**	**38,249**	**93,299**	**(609,333)**	**25,899**	**82,456**
Salaries and benefits	498,952	375,333	46,530	36,739	17,727	4,841	17,782
Premises and equipment	43,553	33,990	2,928	1,699	2,716	598	1,622
Other expenses	223,648	176,748	25,819	4,950	8,119	2,475	5,537
Operating and administrative expenses	**766,153**	**586,071**	**75,277**	**43,388**	**28,562**	**7,914**	**24,941**
Net income (loss)	**302,542**	**852,054**	**(37,028)**	**49,911**	**(637,895)**	**17,985**	**57,515**
Net income (loss) attributable to:							
BDC's shareholder	380,732	852,054	(37,028)	65,944	(575,738)	17,985	57,515
Non-controlling interests	(78,190)	–	–	(16,033)	(62,157)	–	–
Net income (loss)	**302,542**	**852,054**	**(37,028)**	**49,911**	**(637,895)**	**17,985**	**57,515**
Business segment portfolio as at March 31, 2023							
Asset-backed securities	1,176,100	1,176,100	–	–	–	–	–
Loans, net of allowance for expected credit losses	35,932,703	34,020,437	–	–	–	–	1,912,266
Debt investments	1,228,445	10,969	–	1,170,994	35,642	–	10,840
Direct equity investments	2,319,740	–	–	–	1,705,753	479,992	133,995
Indirect equity investments in Funds	2,194,327	–	–	–	1,159,694	1,034,633	–
Investments	5,742,512	10,969	–	1,170,994	2,901,089	1,514,625	144,835
Total portfolio	**42,851,315**	**35,207,506**	**–**	**1,170,994**	**2,901,089**	**1,514,625**	**2,057,101**

(1) Segment interest expense includes an intersegment interest charged to Financing of $245.1 million from the Capital Incentive Programs (CIP) and the Credit Availability Program (CAP), which have a corresponding intersegment interest credit of $16.5M and $228.6M respectively.
This intersegment transaction reflects the interest expense (credit) on CIP's and CAP's cash balances transferred to Financing for treasury management purposes.

(in thousands of Canadian dollars)

20. Segmented information (continued)

March 31, 2022

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Capital Incentive Programs	Credit Availability Program
Interest income	1,694,417	1,476,077	–	87,756	664	8,538	121,382
Interest expense	105,871	97,141	–	4,884	17	–	3,829
Net interest income (loss)	1,588,546	1,378,936	–	82,872	647	8,538	117,553
Net realized gains (losses) on investments	576,019	(562)	–	36,960	457,707	64,914	17,000
Revenue from Advisory Services	28,865	–	28,865	–	–	–	–
Fee and other income	107,725	24,312	9	22,748	12,858	2,598	45,200
Net revenue	2,301,155	1,402,686	28,874	142,580	471,212	76,050	179,753
Provision for expected credit losses	84,681	267,742	–	–	–	–	(183,061)
Net change in unrealized appreciation (depreciation) of investments	915,722	(6,220)	–	47,191	648,449	234,241	(7,939)
Net foreign exchange gains (losses)	(12,565)	(502)	–	17	(11,443)	(169)	(468)
Net gains (losses) on other financial instruments	622	654	–	–	–	–	(32)
Income (loss) before operating and administrative expenses	3,289,615	1,664,360	28,874	189,788	1,108,218	310,122	(11,747)
Salaries and benefits	544,832	330,521	47,588	32,082	98,868	4,804	30,969
Premises and equipment	42,169	31,383	3,381	1,902	2,450	477	2,576
Other expenses	187,852	140,287	16,861	3,551	18,858	1,022	7,273
Operating and administrative expenses	774,853	502,191	67,830	37,535	120,176	6,303	40,818
Net income (loss)	2,514,762	1,162,169	(38,956)	152,253	988,042	303,819	(52,565)
Net income (loss) attributable to:							
BDC's shareholder	2,440,048	1,162,169	(38,956)	136,312	929,269	303,819	(52,565)
Non-controlling interests	74,714	–	–	15,941	58,773	–	–
Net income (loss)	2,514,762	1,162,169	(38,956)	152,253	988,042	303,819	(52,565)
Business segment portfolio as at March 31, 2022							
Asset-backed securities	988,466	988,466	–	–	–	–	–
Loans, net of allowance for expected credit losses	33,283,517	30,499,262	–	–	–	–	2,784,255
Debt investments(1)	1,087,611	11,365	–	1,048,921	13,589	–	13,736
Direct equity investments(1)	2,583,090	–	–	26,914	2,026,853	376,750	152,573
Indirect equity investments in Funds(1)	2,191,853	–	–	–	1,186,116	1,005,737	–
Investments(1)	5,862,554	11,365	–	1,075,835	3,226,558	1,382,487	166,309
Total portfolio	40,134,537	31,499,093	–	1,075,835	3,226,558	1,382,487	2,950,564

(1) Reclassified—see Note 23

(in thousands of Canadian dollars)

21. Guarantees and contingent liabilities

Financial guarantees

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 maximum contractual obligation and actual exposure under the guarantees amounted to $3,319.9 million as at March 31, 2023 ($3,455.7 million as at March 31, 2022) and the existing terms expire within 96 months (within 106 months as at March 31, 2022).

As at March 31, 2023 an amount of $20.1 million of claims payable under these guarantees was recognized in BDC's Consolidated Statement of Financial Position ($2.2 million of claims payable as at March 31, 2022).

Concentrations of the total loan guarantees by province and territory and by industry sector are set out in the tables below.

Geographic distribution	**March 31, 2023** Loan guarantees	March 31, 2022 Loan guarantees
Newfoundland and Labrador	**18,625**	19,389
Prince Edward Island	**8,930**	9,449
Nova Scotia	**28,136**	31,084
New Brunswick	**16,746**	18,707
Quebec	**383,104**	400,253
Ontario	**1,926,334**	1,970,985
Manitoba	**52,418**	58,102
Saskatchewan	**34,884**	31,976
Alberta	**584,929**	634,097
British Columbia	**265,144**	280,969
Yukon	**672**	690
Northwest Territories and Nunavut	**22**	29
Total loan guarantees(1)	**3,319,944**	3,455,730

(1) Loans guarantees included $1.3 million in the Financing segment, and $3,318.6 million in the Credit Availability Program segment as at March 31, 2023 ($3.7 million and $3,452.0 million respectively, as at March 31, 2022).

(in thousands of Canadian dollars)

21. Guarantees and contingent liabilities (continued)

Financial guarantees (continued)

Industry sector	**March 31, 2023 Loan guarantees**	March 31, 2022 Loan guarantees
Tourism	**1,251,160**	1,337,976
Service industries	**731,421**	748,979
Wholesale and retail trade	**379,360**	386,724
Construction	**265,559**	262,484
Manufacturing	**201,434**	212,339
Transportation and storage	**154,927**	152,936
Ressources	**63,935**	71,101
Commercial properties	**10,759**	12,453
Other	**261,389**	270,738
Total loan guarantees(1)	**3,319,944**	3,455,730

(1) Loans guarantees included $1.3 million in the Financing segment, and $3,318.6 million in the Credit Availability Program segment as at March 31, 2023 ($3.7 million and $3,452.0 million respectively, as at March 31, 2022).

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

				March 31, 2023
Allowance for expected credit losses on loan guarantees	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2022	**84,143**	**151,067**	**24,218**	**259,428**
Provision for expected credit losses				
Transfer to Stage 1(1)	**129,019**	**(123,249)**	**(5,770)**	**–**
Transfer to Stage 2(1)	**(62,269)**	**82,945**	**(20,676)**	**–**
Transfer to Stage 3(1)	**(774)**	**(84,081)**	**84,855**	**–**
Net remeasurement of the allowance for expected credit losses(2)	**(107,420)**	**226,697**	**126,302**	**245,579**
Net increase (decrease) in loan guarantees	**3,331**	**(4,778)**	**(6,315)**	**(7,762)**
Balance as at March 31, 2023	**46,030**	**248,601**	**202,614**	**497,245**

				March 31, 2022
Allowance for expected credit losses on loan guarantees	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2021	12,659	12,800	–	25,459
Provision for expected credit losses				
Transfer to Stage 1(1)	74,706	(74,112)	(594)	–
Transfer to Stage 2(1)	(38,913)	39,235	(322)	–
Transfer to Stage 3(1)	(507)	(5,984)	6,491	–
Net remeasurement of the allowance for expected credit losses(2)	(87,531)	72,304	18,498	3,271
Net increase (decrease) in loan guarantees	123,729	106,824	145	230,698
Balance as at March 31, 2022	84,143	151,067	24,218	259,428

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

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

(in thousands of Canadian dollars)

21. Guarantees and contingent liabilities (continued)

Credit risk

The following table summarizes loan guarantees outstanding by client risk exposure based on BDC classification.

						March 31, 2023
BDC rating	Grade equivalent	Stage 1	Stage 2	Stage 3	Total	%
0.5-1.0	Investment grade	**373,153**	**3,989**	**–**	**377,142**	**11%**
1.5-5.0	Non-investment grade	**1,244,316**	**1,240,038**	**–**	**2,484,354**	**76%**
5.5	Watchlist	**–**	**246,439**	**–**	**246,439**	**7%**
6.0 and up	Credit-impaired	**–**	**–**	**212,009**	**212,009**	**6%**
Net carrying amount		**1,617,469**	**1,490,466**	**212,009**	**3,319,944**	**100%**

						March 31, 2022
BDC rating	Grade equivalent	Stage 1	Stage 2	Stage 3	Total	%
0.5-1.0	Investment grade	304,662	345	–	305,007	9%
1.5-5.0	Non-investment grade	2,190,075	728,608	–	2,918,683	84%
5.5	Watchlist	–	195,091	–	195,091	6%
6.0 and up	Credit-impaired	–	–	36,949	36,949	1%
Net carrying amount		2,494,737	924,044	36,949	3,455,730	100%

Indemnification agreements

In the ordinary course of business, BDC enters into many contracts that contain indemnification provisions, such as purchase contracts, employment contracts, service agreements and leasing arrangements. In such contracts, BDC may indemnify counterparties to the contracts for certain aspects of BDC's past conduct if other parties fail to perform, or if certain events occur, such as changes in laws and regulations (including tax legislation), changes in the financial condition of third parties, infringements and breaches of representations and warranties, undisclosed liabilities, and loss caused by the actions of third parties, or as a result of litigation claims by third parties.

These indemnification obligations vary based upon each contract. In many cases, there are no predetermined amounts or limits included in these contracts, and the occurrence of contingent events that triggers payment under them is difficult to predict. The nature of these indemnification contracts is such that BDC cannot reasonably estimate the maximum potential future amount that may be payable to counterparties. Historically, BDC has not made any significant payments under these indemnities and there were no significant provisions for indemnities as at March 31, 2023, and March 31, 2022.

Contingent liabilities

Various legal proceedings arising from the normal course of business are pending against BDC. Management believes that should BDC be found liable pursuant to one or more of these proceedings, the aggregate liability resulting from such proceedings would not be material.

(in thousands of Canadian dollars)

22.

Related party transactions

BDC is a Crown corporation that is wholly owned by the Government of Canada and is accountable for its affairs through the Minister of International Trade, Export Promotion, Small Business and Economic Development. 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.

The defined benefit plans referred to in Note 15—*Net defined benefit asset or liability*, are also related parties. BDC's transactions with these funds include contributions paid to the plans, which are disclosed in Note 15—*Net defined benefit asset or liability*. BDC has no other transactions or balances related to these defined benefit plans.

Borrowings with the Minister of Finance

During the reporting periods, BDC has borrowed funds from His Majesty the King in Right of Canada acting through the Minister of Finance. This borrowing is in accordance with the FAA and the BDC Act and is compliant with (i) BDC's borrowing plan, which is approved by the Minister of Finance, and (ii) the Crown Borrowing Program Framework.

The following table shows the transactions and outstanding balances related to the borrowings with the Minister of Finance. Refer to Note 14—*Borrowings*, for additional information on short-term and long-term notes.

	Short-term notes		Long-term notes		Total	
	2023	2022	**2023**	2022	**2023**	2022
Balance at beginning of year	**14,385,629**	13,336,374	**5,707,297**	4,908,573	**20,092,926**	18,244,947
Net change in short-term notes	**5,352,500**	1,048,000	**–**	–	**5,352,500**	1,048,000
Net changes in accrued interest	**28,968**	1,255	**9,517**	724	**38,485**	1,979
Issuance of long-term notes	**–**	–	**2,675,000**	1,223,000	**2,675,000**	1,223,000
Repayment of long-term notes	**–**	–	**(1,234,000)**	(425,000)	**(1,234,000)**	(425,000)
Balance at end of year	**19,767,097**	14,385,629	**7,157,814**	5,707,297	**26,924,911**	20,092,926

During the year, BDC recorded $518.6 million in interest expense related to these borrowings ($91.7 million in 2022). In addition, $621.0 million in borrowings with the Minister of Finance were repurchased in 2023. These transactions resulted in gains of $13.0 million for fiscal 2023 ($875.0 million in borrowings were repurchased for fiscal 2022 and did not result in any gains or losses).

(in thousands of Canadian dollars)

22. Related party transactions (continued)

Key management personnel

Key management personnel are defined as those officers having authority and responsibility for planning, directing and controlling the activities of BDC, including members of the Board of Directors. The following table shows the compensation expense of key management personnel.

	2023	2022
Salaries and short-term employee benefits	**6,535**	6,142
Post-employment benefits	**1,089**	1,299
Other long-term benefits	**1,706**	1,430
Total	**9,330**	8,871

The following loans or investments were approved by BDC's Board of Directors or one of its standing committees given that:

i) A member of the Board of Directors, a BDC officer or an interested person, owns an interest in, or is a director or officer of the applicant; or

ii) The applicant is an interested person.

Said Board member, BDC officer or interested person disclosed the above-mentioned interest to BDC, was not present when the loan or investment was discussed, and, if applicable, did not vote on the resolution to approve the related transaction.

	March 31, 2023
Name of client	Amount of the loan or investment
Futurpreneur Canada	**70**
Snobar Realty Group	**200**
NUCM Associates Inc.	**250**
Dentalcorp Health Services Ltd.	**50**
Total	**570**

Subsidiaries and associates

The relationships between BDC and its subsidiaries meet the definition of related party relationships. All transactions between the Bank and its subsidiaries have been eliminated on consolidation, and as such, are not disclosed as related party transactions.

In the normal course of business, BDC provides certain services to associates, including equity-type financing and investments. These transactions meet the definition of related party transactions and are made on terms equivalent to those that prevail in arm's-length transactions. Refer to Note 2—*Basis of preparation*, for more information on associates.

(in thousands of Canadian dollars)

23.
Comparative information

In order to simplify the presentation of investments balances in the Consolidated Statement of Financial Position, Subordinate financing investments and Venture Capital investments were combined. As a result, Subordinate financing investments and Venture capital investments are now presented together as “Investments” in the assets section of the Consolidated Statement of Financial Position, including the comparative information as at March 31, 2022. Asset-backed securities were previously grouped into the subtotal “Total investments” in the Consolidated Statement of Financial Position. They are now presented on an individual line due to the distinct nature of this type of investments, which are lower risk due to high collateralization. The new presentation does not change the accounting policies and estimates for these financial instruments.

Note 11—*Investments* discloses our investments in three categories, debt investments, direct equity investments and indirect equity investments. As our investments portfolio has increased significantly in the last few years and become more diversified, the new disclosure provides more meaningful information about the nature of our investments compared to the previously used classification of Subordinate financing investments and Venture capital investments. Subordinate financing investments included both debt and direct equity investments while Venture capital investments included direct and indirect equity investments. All the notes to the Consolidated Financial Statements were revised to reflect the new terminology.

The tables below summarize the impact of the above-mentioned changes in the Consolidated Statement of Financial Position as at March 31, 2022, the Consolidated Statement of Cash Flows and Note 20—*Segmented information* for the year ended March 31, 2022. This reclassification had no impact on the Consolidated Statement of Income, the Consolidated Statement of Comprehensive Income or the Consolidated Statement of Changes in Equity.

Consolidated Statement of Financial Position	Fiscal Year ended March 31, 2022	Reclassification in line item “Investments”	Exit from “Total investments” and reclassification in a separate line item	Fiscal Year ended March 31, 2022 reclassified
Asset back securities	**–**	**–**	**988,466**	**988,466**
Total investments	**6,851,020**	**(5,862,554)**	**(988,466)**	**–**
Asset back securities	988,466	–	(988,466)	–
Subordinate financing investments	1,729,544	(1,729,544)	–	–
Venture capital investments	4,133,010	(4,133,010)	–	–
Investments	**–**	**5,862,554**	**–**	**5,862,554**

Consolidated Statement of Cash Flows	Fiscal Year ended March 31, 2022	Reclassification in Disbursements for investments	Reclassification in Repayments of investments	Reclassification in Proceeds on sale of investments	Fiscal Year ended March 31, 2022 reclassified
Disbursements for subordinate financing investments	(629,004)	629,004	–	–	–
Repayments of subordinate financing investments	620,556	–	(620,556)	–	–
Disbursements for venture capital investments	(514,017)	514,017	–	–	–
Proceeds on sale of venture capital investments	582,050	–	–	(582,050)	–
Disbursements for investments	**–**	**(1,143,021)**	**–**	**–**	**(1,143,021)**
Repayments of investments	**–**	**–**	**620,556**	**–**	**620,556**
Proceeds on sale of investments	**–**	**–**	**–**	**582,050**	**582,050**

(in thousands of Canadian dollars)

23. Comparative information (continued)

Note 20—*Segmented information*		Financing		Growth & Transition Capital		Venture Capital		Capital Incentive Programs		Credit Availability Program	
Investment categories as per fiscal year ended March 31, 2022, reclassified	Total Investments	Subordinate financing investments	Venture capital investments	Subordinate financing investments	Venture capital investments	Subordinate financing investments	Venture capital investments	Subordinate financing investments	Venture capital investments	Subordinate financing investments	Venture capital investments
Debt investments	1,087,611	11,365	–	1,048,921	–	13,589	–	–	–	13,736	–
Direct equity investments	2,583,090	–	–	26,914	–	238,269	1,788,584	376,750	–	–	152,573
Indirect equity investments	2,191,853	–	–	–	–	–	1,186,116	–	1,005,737	–	–
Total	**5,862,554**	**11,365**	**–**	**1,075,835**	**–**	**251,858**	**2,974,700**	**376,750**	**1,005,737**	**13,736**	**152,573**
Reconciliation with fiscal 2022 presentation											
Subordinate financing investments	1,729,544	11,365	–	1,075,835	–	251,858	–	376,750	–	13,736	–
Venture capital investments	4,133,010	–	–	–	–	–	2,974,700	–	1,005,737	–	152,573
Total	**5,862,554**	**11,365**	**–**	**1,075,835**	**–**	**251,858**	**2,974,700**	**376,750**	**1,005,737**	**13,736**	**152,573**

The following table summarizes the impact of the changes on the committed amounts to clients which were presented in Note 11—*Subordinate financing investments* and Note 12—*Venture capital investments* in fiscal's 2022 annual report:

		Financing		Growth & Transition Capital		Venture Capital		Capital Incentive Programs		Credit Availability Program	
Investment categories as per fiscal year ended March 31, 2022, reclassified	Total committed amounts	Subordinate financing investments	Venture capital investments	Subordinate financing investments	Venture capital investments	Subordinate financing investments	Venture capital investments	Subordinate financing investments	Venture capital investments	Subordinate financing investments	Venture capital investments
Debt investments	154,005	2,700	–	132,882	–	18,423	–	–	–	–	–
Direct equity investments	90,600	–	–	–	–	10,769	24,387	52,995	–	–	2,449
Indirect equity investments	820,445	–	–	–	–	–	493,197	–	327,248	–	–
Total	**1,065,050**	**2,700**	**–**	**132,882**	**–**	**29,192**	**517,584**	**52,995**	**327,248**	**–**	**2,449**
Reconciliation with fiscal 2022 presentation											
Subordinate financing investments	217,769	2,700	–	132,882	–	29,192	–	52,995	–	–	–
Venture capital investments	847,281	–	–	–	–	–	517,584	–	327,248	–	2,449
Total	**1,065,050**	**2,700**	**–**	**132,882**	**–**	**29,192**	**517,584**	**52,995**	**327,248**	**–**	**2,449**

Corporate Governance

At BDC, we have established a robust and effective corporate governance structure to maintain the confidence and trust of our most important stakeholders: entrepreneurs, employees, the public and our shareholder.

We achieve high standards of governance through a clear understanding of our mandate, well-defined roles, strong leadership and alignment of our corporate governance framework from the board level to the operational level.

BDC's corporate governance framework

Federal statutes and Treasury Board guidelines

The *Business Development Bank of Canada Act* sets out BDC's purpose, powers and mandate. The *Financial Administration Act* sets out the control regime for Crown corporations, including strategic planning and financial accountability. BDC's by-laws prescribe the rules that govern the functioning of the Bank.

We look to the Treasury Board of Canada Secretariat for guidance on public sector governance practices. BDC meets all the governance standards recommended by Treasury Board. We also regularly benchmark ourselves against corporate governance and risk management best practices in the financial services sector and update our corporate governance framework as appropriate.

Board governance

Our Board of Directors sets BDC's strategic direction and holds senior management accountable for achieving BDC's statutory mandate while respecting its complementary role. Our board's charter, the Board Code of Conduct and board committees' charters define the board's corporate governance framework, oversight responsibilities, stewardship role and decision-making authority.

The board is composed of dedicated directors. Their expertise, integrity and commitment to ethical business conduct allow them to transform principles into action and build trust among our stakeholders. Together, our directors have the required mix of skills and experience needed to guide management in delivering on BDC's mandate. They bring a diverse range of perspectives that helps us support our clients' goals and aspirations.

The board committees do in-depth work in their areas of responsibility and provide regular reports to the board on the activities and performance of the Bank. The board and its committees regularly undergo third-party assessments of their effectiveness; directors perform peer-to-peer evaluations; and management assesses the board. Except for the President and CEO, all directors are independent. The segregated roles and responsibilities of the Chairperson of the Board and the President and CEO reflect best practices.

There is extensive communication and collaboration between board members and senior management in an environment of respect.

The board and its committees regularly hold in-camera sessions with the heads of the oversight functions and with auditors. They also regularly meet without management.

Compliance

Under the leadership of the Vice President and Lead, Enterprise Risk Management, and the Vice President, Credit Risk Management, the Compliance Assurance and Monitoring team is accountable for the execution of internal reviews to test compliance with regulatory requirements. In addition, the Privacy and Information Management team ensures compliance with privacy requirements while defining the measures for identifying, managing, and protecting personal and confidential information.

Risk management

BDC's core challenge is to carry out its role as a development bank that supports entrepreneurs while prudently managing risk and remaining financially sustainable. The board works closely with management to instill and monitor an appropriate risk culture. BDC continues to refine its risk management framework under the leadership of the Chief Risk Officer, who is responsible for the effectiveness of risk management and risk oversight functions.

Transparency and conduct review

BDC's directors, executives and employees are committed to the highest standards of business ethics and corporate governance. The Audit and Conduct Committee focuses on conduct and the board provides oversight of conduct review. Our operations and activities are characterized by an open and ethical culture. The Board Code of Conduct and the Employee Code of Conduct, Ethics and Values are regularly updated to ensure they provide ethical guidance at all levels of the organization. Directors, employees and consultants declare annually that they have read, understood and complied with our codes of conduct. The codes are reinforced by governance documents on personal trading, disclosure of wrongdoing, anti-fraud, anti-money laundering, knowing your client, anti-terrorism financing and respect for sanctions. In addition, BDC has an Ombudsperson and a thorough complaint-handling process.

Robust processes are in place to manage conflicts of interest. Any loan to or investment in a company with respect to which a director or officer has declared an interest is approved by a committee of the board, and directors recuse themselves from meetings where they have declared a conflict of interest.

Such transactions are disclosed in BDC's Annual Report in compliance with the *BDC Act*.

Government oversight

Each year, Parliament receives an update on BDC's five-year Corporate Plan, which has been approved by the board, the Treasury Board of Canada Secretariat, and the Minister of International Trade, Export Promotion, Small Business and Economic Development. A summary of the Corporate Plan is tabled in Parliament. Parliament also receives BDC's Annual Report. It contains our Consolidated Financial Statements, which have been audited by both the Auditor General of Canada and an external audit firm.

At 10-year intervals, the Minister of International Trade, Export Promotion, Small Business and Economic Development reviews the provisions and operation of the *BDC Act*, in consultation with the Minister of Finance, to ensure BDC's mandate remains pertinent. The Minister has recently initiated a review for 2010–2022. To help inform the legislative review process, BDC made a formal submission. It provides a contextual overview of BDC's operations, a review of accomplishments since 2010, an account of current challenges and opportunities for SMEs, and a look at the ways BDC can best support SMEs in the future.

Highlights of the year

In fiscal 2023, the Board of Directors carried out its activities in a volatile economic environment where market uncertainty remained a significant concern. BDC had to remain flexible and adapt to the changing environment and entrepreneurs' needs.

The Bank's renewed purpose—to empower a nation of dreamers and doers to build a better tomorrow for all—drove its commitment to providing high-quality services to Canadian entrepreneurs.

The board provided invaluable oversight with respect to capital allocation, stress testing and management decisions on loan-loss provisions. Additionally, it approved new programs to support underserved communities. These included BDC's Thrive Platform, a program designed to address the varied equity needs of female entrepreneurs. The board also approved the creation of a platform and dedicated fund to support the growth and scaling of private equity and venture capital: the BDC Growth Equity/ Private Equity Platform.

Also, the board approved explicit economic, social and environmental sustainability ambitions for BDC, which flow from its purpose and are embedded in corporate strategy and objectives. For greater environmental sustainability, specifically Canada's net-zero commitments, BDC has created the Climate Tech Fund II, plus a third Industrial, Clean and Energy Technology Venture Fund (Sustainability Venture Fund). Notably, to accompany entrepreneurs in all sectors to and through the energy transition, it is building a Climate Action Centre, an online hub of information and useful tools.

The board also managed the allocation from the federal government's Venture Capital Catalyst Initiative, which supports funds of funds, life sciences funds and inclusive growth funds.

Despite a series of new challenges—high inflation, rising interest rates and geopolitical tensions—the board stayed focused on important priorities that became even more imperative to further support Canadian entrepreneurs moving into the post-COVID era.

Governance highlights

The Governor in Council has once again renewed the term of Mike Pedersen as BDC's Chairperson of the Board for one year. He has used his experience and knowledge to continue guiding BDC in the implementation of the Bank's renewed vision and its long-term strategy.

During the year, the directors attended a significant 62 meetings of committees and the full board. The majority of these were held virtually, with the remainder held in person.

The board received training on Indigenous cultural awareness. Cyber-security training and updates on the economic situation were also provided to the board.

Board of Directors

Chairperson: Mike Pedersen

Number of meetings: 11

The board is responsible for the following:

- approving BDC's strategic direction and Corporate Plan to meet its public policy mandate
- overseeing BDC's talent, culture and conduct review
- setting performance targets and monitoring progress
- approving the risk management framework, which includes the risk appetite statement, to ensure BDC is identifying and managing its risks properly
- ensuring that the highest standards of corporate governance and board effectiveness are respected
- establishing compensation policies and ensuring they are aligned with BDC's risk appetite
- reviewing and approving management's succession plan, which includes approving appointments to the senior management team
- setting the President and CEO's performance objectives and evaluating performance
- reviewing BDC's financial matters and internal controls
- overseeing communications and public disclosures
- overseeing and approving the sustainability strategy
- overseeing BDC's pension plans, including establishing their funding policies and practices
- approving financing and investment activities beyond management's authority, and overseeing financial and advisory services
- ensuring the complementarity of BDC's market approach and activities

1. Committees

Audit and Conduct Committee

Chairperson: Brian O'Neil

Number of meetings: 5

Members: Tania Clarke, Vivek Jain, Abdullah Snobar, Suzanne Trottier

This committee promotes an overall corporate culture of quality financial reporting and ethical behaviour.

Its main duties are as follows:

— review and advise the board on the annual and quarterly Consolidated Financial Statements before disclosure in accordance with accounting principles

— review the integrity, adequacy and effectiveness of the internal control framework, information management systems and controls related to major information technology, cyber-security, accounting and financial reporting systems

— provide primary oversight of conduct review, including BDC's standards of integrity and conduct, the anti-fraud program for internal fraud, the process for disclosing wrongdoing, and reports from the Ombudsperson

— oversee data governance and approval of the Data Governance Policy

— oversee information management systems and their performance, and information security

— recommend the appointment and removal of, and succession planning for, the Chief Audit Executive

— oversee the activities and assess the performance of the Chief Audit Executive and the internal audit function

— make recommendations on the appointments of external auditors and special examiners, oversee their activities, and assess the performance of external auditors

— review the scope and terms of engagement of auditors and special examiners who report directly to the committee and are accountable to the board

— oversee the activities of the corporate compliance function, including regulatory compliance, and assess its performance

— assess confidentiality and privacy issues

— oversee capital management, allocation and adequacy, and the declaration of a dividend

— review directors' and officers' expenses

Board Risk Committee

Chairperson: Bill Currie

Number of meetings: 18

Members: Tania Clarke, Tracey Scarlett, Abdullah Snobar, Suzanne Trottier

This committee's main duties are as follows:

— review and recommend to the board the risk management framework

— oversee the work of the Chief Risk Officer and the risk oversight functions

— identify and manage BDC's principal financial, business and operational risks, and oversee the Bank's risk culture

— oversee activities aimed at preventing external fraud and other financial crimes

— oversee management of privacy issues and controls

— regularly review the Enterprise Risk Management Policy and other policies concerning key risks, such as credit, market, strategic, reputational, operational, information technology and other principal risks

— review and recommend to the board all strategies related to BDC's material financial offerings

— approve and assess the effectiveness of BDC's risk appetite statement and monitor compliance with the models and limits contained in it

— review reports and indicators related to BDC's risk profile regarding enterprise risk management, portfolio risk management, capital management and adequacy, treasury operations risks, and information technology security, including emerging risks and exceptions to the risk appetite statement and policies

— approve the framework for assessing and approving new business activities, products and services, except those related to Venture Capital

— ensure the effectiveness of stress-testing procedures and review reports on BDC's risk profile, stress-testing processes, stress-testing methodology and internal capital adequacy assessment process

— periodically review the business continuity plan

— approve loans and transactions that exceed the delegated authorities of senior management

— review policies and guidelines related to the delegation of authority for all financial products, except Venture Capital products

Governance and Nominating Committee

Chairperson: Mike Pedersen

Number of meetings: 4

Members: Sandra Bosela, Bill Currie, Brian O'Neil, Tracey Scarlett

This committee helps the board fulfill its corporate governance oversight responsibilities. Its main duties are as follows:

— continually review best practices and regulations related to governance in Canada and, if necessary, recommend changes to BDC's approach

— review BDC's corporate governance policies, including the Board Code of Conduct, and the Employee Code of Conduct, Ethics and Values

— annually assess the board's compliance with these policies

— oversee management of sustainability issues as a strategic challenge and opportunity

— monitor procedures established to detect and manage potential conflicts of interest

— regularly review the mandates, structures and memberships of the board and its committees

— develop selection criteria for the President and CEO position

— recommend to the board, for the consideration of the Minister of International Trade, Export Promotion, Small Business and Economic Development, the appointment or reappointment of the Chairperson of the Board, the President and CEO, and directors

— review and approve a list of skills required by directors

— develop processes to assess the performance of the board, its committees and directors

— ensure that comprehensive director orientation and continuous training programs are in place

Human Resources Committee

Chairperson: Tracey Scarlett

Number of meetings: 8

Members: Cathy Bennett, Sandra Bosela, Bill Currie, Vijay Kanwar

This committee's main duties are as follows:

— assess the organizational culture established by senior management regarding integrity and ethics, and review policies for managing personnel effectively

— recommend to the board the human resources strategy, including key human resources objectives, plans and workforce requirements

— oversee promotion of diversity, equity and inclusion amongst the employee

— review and, if appropriate, recommend to the board for approval any major organizational structure changes, including the President and CEO's and other committees' recommendations for appointments of senior management committee members, the Chief Audit Executive, the Treasurer and the Ombudsperson

— assess the President and CEO's objectives, performance, evaluation and benefits

— oversee compensation risk

— review compensation for senior executives

— review and approve the design of compensation policies, programs and plans

— approve performance measures and metrics

— ensure there is a valid succession plan in place for all critical positions

— assess human resources risks, such as those related to employee attraction, retention, engagement and performance

— receive and examine actuarial valuation reports and financial statements related to BDC's pension plans, as well as recommend funding contributions

— recommend funding and design changes to the pension plans to the board

— monitor the funded status of the pension plans

— provide oversight on pension plan governance and investment

— recommend the pension plan funds' financial statements to the board

— advise the board on investment strategies and the asset mix

Board Investment Committee

Chairperson: Sandra Bosela	
Number of meetings: 16	
Members: Cathy Bennett, Vivek Jain, Vijay Kanwar, Brian O'Neil	

This committee's duties are as follows:

- regularly review the Venture Capital Policy and other policies and processes for investment activities
- review and assess all risks associated with investments and the management thereof
- review all strategies, guardrails and capital allocations for all material investment activities, including venture capital and private equity
- approve the business plans of Venture Capital's internal funds, as well as their investment strategies, capital allocation and guardrails
- oversee the execution of any program supporting Canadian entrepreneurship
- review strategic initiatives aimed at improving the venture capital ecosystem, including sustainability initiatives
- review and recommend delegations of authority
- monitor portfolio performance
- approve investments that exceed the delegated authorities of senior management

To see board committees' mandates, please go to www.bdc.ca.

Fiscal 2023 Board of Directors and Committee Attendance

	Board of Directors			Audit and Conduct Committee			Board Investment Committee[6]			Board Risk Committee[6]			Governance and Nominating Committee			Human Resources Committee			Committee meetings		
Director	Attendance	Total	%	Attendance	Total	%	Attendance	Total	%	Attendance	Total	%	Attendance	Total	%	Attendance	Total	%	Attendance	Total	%
Mike Pedersen[1]	11	11	100%										4	4	100%				4	4	100%
Cathy Bennett[2]	10	11	91%				11	13	85%							8	8	100%	19	21	90%
Sandra Bosela[3]	11	11	100%				13	14	93%				4	4	100%	8	8	100%	25	26	96%
Tania Clarke[4]	11	11	100%	5	5	100%				14	16	88%							19	21	90%
Bill Currie	11	11	100%							15	18	83%	4	4	100%	8	8	100%	27	30	90%
Isabelle Hudon[5]	11	11	100%																N/A	N/A	N/A
Vivek Jain	11	11	100%	5	5	100%	14	16	88%										19	21	90%
Vijay Kanwar	8	11	73%				10	15	67%							4	8	50%	14	23	61%
Brian O'Neil	10	11	91%	5	5	100%	16	16	100%				4	4	100%				25	25	100%
Tracey Scarlett	10	11	91%							18	18	100%	4	4	100%	8	8	100%	30	30	100%
Abdullah Snobar	11	11	100%	5	5	100%				13	17	76%							18	22	82%
Suzanne Trottier	9	13	82%	5	5	100%				15	17	88%							20	22	91%

(1) Mr. Pedersen is the Chairperson of the Board of Directors and the Governance and Nominating Committee. Although Mr. Pedersen is not a member of any other committee, he attends an extensive number of committee meetings.

(2) Due to potential conflicts of interest, Ms. Bennett recused herself from two Board Investment Committee meetings. These meetings have been excluded from the statistics listed above.

(3) Due to a potential conflict of interest, Ms. Bosela recused herself from one Board Investment Committee meeting. This meeting has been excluded from the statistics listed above.

(4) Due to a potential conflict of interest, Ms. Clarke recused herself from one Board Risk Committee meeting. This meeting has been excluded from the statistics listed above.

(5) Ms. Hudon is BDC's President and CEO. As President and CEO, Ms. Hudon is not a member of any committee. However, she attends an extensive number of committee meetings.

(6) The total number of meetings may vary between members of the same committee due to 1) recusals, which are excluded from the statistics and 2) joint sessions, in case there is a member of both committees, their attendance is recorded only in one of them.

2. Board of Directors

(March 31, 2023)

Mike Pedersen
Chairperson of the Board
BDC
Toronto, Ontario

Isabelle Hudon
President and CEO
BDC
Montreal, Quebec

Cathy Bennett
Entrepreneur and Director
Benco Investments
St. John's, Newfoundland and Labrador

Sandra Bosela
Co-Head Private Markets Group
Managing Director and Global Head of Private Equity
OPTrust Private Markets Group
Toronto, Ontario

Tania Clarke
Corporate Director
Montreal, Quebec

Bill Currie
Corporate Director
Toronto, Ontario

Vivek Jain
Entrepreneur
Regina, Saskatchewan

Vijay Kanwar
Founder
KMH Cardiology and Diagnostic Centres Inc.

Founder and President
Lambardar Inc.
Mississauga, Ontario

Brian O'Neil
Managing Partner
A Faire Aujourd'hui Inc
Toronto, Ontario

Tracey Scarlett
Corporate Director
Edmonton, Alberta

Abdullah Snobar
Executive Director
The DMZ

CEO
DMZ Ventures
Toronto, Ontario

Suzanne Trottier
Vice President, Indigenous Trust Services
First Nations Bank of Canada
Vancouver, British Columbia

To see BDC's directors' biographies, please go to www.bdc.ca.

3. Senior Management Committee

(March 31, 2023)

Isabelle Hudon
President and CEO

Miguel Barrieras
Chief Strategy and Impact Officer

Jean-Sébastien Charest
Chief Information Officer

Jennifer Dibblee
Chief Legal Officer and Corporate Secretary

Véronique Dorval
Executive Vice President and Chief Operating Officer

Marie-Chantal Lamothe
Chief Human Resources Officer

Stefano Lucarelli
Chief Financial Officer

Annie Marsolais
Chief Marketing Officer

Jérôme Nycz
Executive Vice President
BDC Capital

Christopher Rankin
Executive Vice President and Chief Risk Officer

To see BDC's senior management team members' biographies, please go to www.bdc.ca.

Five-Year Operational and Financial Summary

for the years ended March 31 (in thousands of Canadian dollars)

Operational Statistics	2023	2022	2021	2020	2019
Loans					
Committed to clients[(1)] as at March 31					
Amount	**41,114,824**	38,093,474	35,496,220	31,546,910	29,943,724
Number of clients	**64,484**	62,234	59,291	49,391	47,104
Acceptances					
Amount	**10,326,810**	9,786,838	8,703,157	7,405,087	7,222,429
Number	**19,634**	17,648	24,755	18,608	17,206
Loan guarantees					
Committed to clients as at March 31					
Amount	**3,319,944**	3,455,730	294,644	–	–
Number of clients	**16,538**	15,779	1,195	–	–
Acceptances					
Amount	**228,835**	3,224,761	286,661	–	–
Number	**1,151**	15,172	1,195	–	–
Asset-backed securities					
Amount committed to clients[(1)] as at March 31	**1,961,758**	1,445,827	1,345,784	1,010,905	996,768
Amount authorized (cancelled) and renewed	**515,000**	100,000	335,000	40,000	90,000
Debt investments					
Committed to clients[(1)] as at March 31					
Amount	**1,476,593**	1,323,470	1,115,593	1,273,627	1,264,555
Number of clients	**643**	639	625	614	619
Acceptances/Authorizations					
Amount	**498,808**	530,396	155,787	436,679	389,802
Number	**169**	173	107	172	168
Direct equity investments					
Committed to clients[(1)] as at March 31					
Amount	**1,826,660**	1,592,243	1,344,734	963,593	753,851
Number of clients	**331**	328	328	202	201
Acceptances/Authorizations					
Amount	**338,562**	435,279	510,160	236,353	166,734
Number	**86**	93	205	79	89
Indirect equity investments in funds					
Committed to clients[(1)] as at March 31					
Amount	**2,441,868**	1,920,992	1,861,300	1,659,838	1,530,132
Number of clients	**155**	138	125	108	95
Authorizations					
Amount	**536,126**	175,492	258,825	195,133	494,401
Number	**16**	15	21	19	19
BDC					
Total committed to clients	**52,141,647**	47,831,736	41,458,275	36,454,873	34,489,030

(1) Amount committed to clients represents portfolio outstanding and amount undisbursed, at cost.

(in thousands of Canadian dollars)

Financial Information	**2023**	2022	2021	2020	2019
Net income (loss) and comprehensive income (loss)—by business segment[1]					
for the years ended March 31					
Financing	**852,054**	1,162,169	733,103	32,053	621,272
Advisory Services	**(37,028)**	(38,956)	(39,424)	(46,807)	(49,780)
Growth & Transition Capital	**49,911**	152,253	114,833	(32,945)	73,440
Venture Capital	**(637,895)**	988,042	902,467	(86,856)	194,147
Capital Incentive Programs	**17,985**	303,819	254,383	(83,444)	46,523
Core net income (loss)	**245,027**	2,567,327	1,965,362	(217,999)	885,602
Credit Availability Program	**57,515**	(52,565)	(315,499)		
Net income (loss)	**302,542**	2,514,762	1,649,863	(217,999)	885,602
Net income (loss) attributable to:					
BDC's shareholder	**380,732**	2,440,048	1,647,648	(193,018)	878,482
Non-controlling interests	**(78,190)**	74,714	2,215	(24,981)	7,120
Net income (loss)	**302,542**	2,514,762	1,649,863	(217,999)	885,602
Other comprehensive income (loss)[2]	**10,860**	260,040	(38,213)	92,953	(67,879)
Total comprehensive income (loss)	**313,402**	2,774,802	1,611,650	(125,046)	817,723
Total comprehensive income (loss) attributable to:					
BDC's shareholder	**391,592**	2,700,088	1,609,435	(100,065)	810,603
Non-controlling interests	**(78,190)**	74,714	2,215	(24,981)	7,120
Total comprehensive income (loss)	**313,402**	2,774,802	1,611,650	(125,046)	817,723
Financial position information					
as at March 31					
Asset-backed securities	**1,176,100**	988,466	733,322	777,838	700,343
Loans, net of allowance for credit losses	**35,932,703**	33,283,517	30,905,481	27,273,088	25,916,222
Investments	**5,742,512**	5,862,554	4,431,534	2,961,724	3,179,960
Total assets	**44,284,922**	41,566,996	37,148,117	33,153,358	30,656,454
Total liabilities	**28,140,021**	21,078,523	19,130,760	24,250,559	22,900,694
Total equity attributable to:					
BDC's shareholder	**16,138,775**	20,404,183	18,004,095	8,891,660	7,714,125
Non-controlling interests	**6,126**	84,290	13,262	11,139	41,635
Total equity	**16,144,901**	20,488,473	18,017,357	8,902,799	7,755,760

(1) For detailed information on fiscal 2023 and fiscal 2022 segmented information, please also refer to Note 20—*Segmented information* to the Consolidated Financial Statements.

(2) For detailed information on fiscal 2023 and fiscal 2022 Other comprehensive income, please refer to Consolidated Statement of Comprehensive Income (p.51).

Glossary

Acceptance—The point at which the client has agreed to the authorized financing terms and conditions that BDC has offered them. Client acceptance follows BDC authorization. (Information on acceptances disclosed in this report is net of cancellations or reductions after client acceptance.)

Allowance for expected credit losses—Represents management's estimate of expected credit losses as at the Statement of Financial Position date. Allowance for expected credit losses can be in impaired or performing portfolio. The expected credit losses on outstanding loans are recorded on the Statement of Financial Position as a deduction from loans and the expected credit losses on loan commitments is recorded in other liabilities.

Allowance on impaired portfolio—Established by the management to measure the expected credit losses on the credit-impaired loan portfolio.

Allowance on performing portfolio—Established by management to measure the expected credit losses on the performing loan portfolio.

Asset-backed securities—Securities created through the securitization of a pool of assets. For example, BDC's securitization contains Canadian AAA-rated term securities backed by loans and leases on vehicles and equipment, as well as dealer floor plan loans.

Authorization—The point at which BDC has completed its due diligence and approved the financing request or venture capital investment. Authorization precedes acceptance. (Information on authorizations disclosed in this report is net of cancellations or reductions after BDC authorization.)

Cross-currency swaps—Agreements to exchange payments in different currencies over pre-determined periods of time.

Debt investments—Patient capital in the form of debt with flexible lending terms, with or without convertible features and quasi-equity financing.

Debt-to-equity ratio—A measure to ensure BDC operates within its statutory limitations on debts, calculated as the aggregate of borrowings and contingent liabilities over the equity attributable to BDC's shareholder. It also includes preferred shares classified as liabilities, and excludes accumulated other comprehensive income or loss. The statutory limit of BDC's debt-to-equity ratio is 12:1.

Derivative financial instruments—Contracts whose value is "derived" from movements in interest or foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

Direct equity investments—Investments BDC makes directly in investee companies.

Fair value—The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value represents management's best estimate of the net worth of an investment at the Statement of Financial Position date and may not reflect the ultimate realizable value upon disposal of the investment.

Financing efficiency ratio—A measure of the efficiency with which BDC incurs expenses to generate income on its financing operations. It is calculated as operating and administrative expenses, as a percentage of net revenue. A lower ratio indicates improved efficiency.

Hedging—A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal banking operations.

Impaired loans—Loans are deemed impaired when the interest or principal of the loan is in arrears for three consecutive months or more or if there is reason to believe that a portion of the principal or interest cannot be collected.

Indirect equity investments in funds—Equity investments made indirectly through external funds.

Interest rate swaps—Agreements to exchange streams of interest payments—typically, one at a floating rate and the other at a fixed rate—over a specified period, based on notional principal amounts.

Master netting agreement—A standard bilateral contract that enables trading counterparties to agree to net collateral requirements and, in a close-out situation, settlement amounts related to underlying master trading contracts for sales and purchases of financial instruments. The master netting agreement offsets positive balances of one transaction with negative balances of another.

Net change in unrealized appreciation or depreciation of investments—Amount included in income resulting from movements in the fair value of investments for the period.

Net interest income—The difference between interest revenues generated by interest-bearing portfolios, as well as cash equivalents and securities, and the cost of borrowings to fund these assets.

Net realized gains or losses on investments—Gains realized, net of realized capital losses, upon sale or write-off of investments, excluding the net change in unrealized appreciation or depreciation of venture capital and subordinate financing investments.

Net realized gains or losses on other financial instruments—Amounts that are related to structured notes and their associated derivatives. Realized gains or losses occur when financial instruments are repurchased prior to maturity at a price higher or lower than the original purchase price.

Net unrealized gains or losses on other financial instruments—Amounts that are related to structured notes and their associated derivatives. These represent the amounts included in income resulting from movements in the fair value of financial instruments for the period.

Non-controlling interest—The equity in a subsidiary not attributable, directly or indirectly, to BDC.

Performing portfolio—Loans for which there is reasonable assurance that BDC can collect the principal and interest on time.

Provision for expected credit losses—A charge to income that represents an amount that management deems adequate to fully provide for impairment in the loan portfolios, given the composition of the loan portfolios, the probability of default on the loans, the economic environment and the allowance for expected credit losses already established.

Quasi-equity investments—A hybrid form of finance with characteristics of both debt and equity investments with tailor-made repayment terms and which typically does not require collateral and dilution of the ownership stake.

Adjusted return on common equity (ROE)—Net income (loss), less preferred share dividends, expressed as a percentage of average common equity. It excludes other comprehensive income or loss on post-employment benefits, accumulated other comprehensive income or loss, and non-controlling interest. It also excludes Capital Incentive Programs (CIP) and the Capital Credit Availability Program (CAP).

Revenue from Advisory Services—Fees charged to clients for management services (diagnostic, proposal and implementation) provided by BDC delivery employees (usually "Business Advisors") and External Consultants who are part of BDC's national network.

Start-up—A business that is being established for the first time. Also included in this category are existing enterprises that have not yet registered 12 consecutive months of sales.

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Iul30-2023E-PDF
ISSN 1495-6721 (Online)

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