



**2017**

# Financial Report

Second Quarter

September 30, 2016



# Executive Summary

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**The Canadian economy continues to adjust to the decline in crude oil prices. Economic activity remains slow in the oil-producing provinces, especially in Alberta, where oil production was hampered by forest fires in the spring. The other Canadian provinces are doing well, especially British Columbia and Ontario, which benefit from the favourable Canadian dollar exchange rate on exports.**

After reaching a low in February, the price of oil has gradually recovered and has remained relatively stable since mid-April, hovering around US\$45 a barrel. Despite some rebalancing of global supply and demand, oil supply remains abundant. Therefore, despite the fact that demand is strong and expected to grow, it is unlikely that the price will deviate from the current range of US\$40 to US\$50 a barrel in the coming months.

Although the pace of growth has slowed, exports of goods have continued to rise since the beginning of the year. This growth has mainly been supported by increased sales of motor vehicles and parts, consumer goods, and wood products. In contrast, the pace of exports of energy products, metal products and aircraft has slowed down.

Business investment continued to decline during the first half of 2016, but at a more moderate pace, suggesting a return to growth soon. Household consumer spending and residential construction, which benefitted from historically low interest rates, remained strong. Employment declined markedly in oil-producing provinces during the last 12 months but increased nationally.

In this challenging context, BDC continues to play a key role in helping small and medium-sized businesses get the support they need to succeed.

To better serve its clients, BDC is also leveraging its online presence through its Virtual Business Centre and is enhancing its mobile capabilities to make it simpler and faster for entrepreneurs to secure financing.

During this quarter, clients of Financing<sup>(1)</sup> accepted \$1.8 billion in loans, compared to \$1.2 billion for the same period last year. For the six months ended September 30, 2016, clients accepted a total of \$3.5 billion in loans, compared to \$2.5 billion last year.

BDC recognizes the importance of supporting small and medium-sized businesses by providing small loans. For the six months ended September 30, 2016, a total of \$612.1 million in small loans (\$750,000 or less) was accepted by 5,660 clients, compared to \$592.7 million accepted by 5,776 clients last year.

As at September 30, 2016, Financing's<sup>(1)</sup> loan portfolio, before allowance for credit losses, stood at \$21.4 billion, a 5.6% increase since March 31, 2016.

Growth & Transition Capital continued to support the growth plans of Canadian entrepreneurs through its diverse product offerings, with clients accepting \$73.3 million in financing in the second quarter, for a total of \$172.8 million for the six-month period, compared to \$59.8 million and \$120.8 million, respectively, for the same periods last year.

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<sup>(1)</sup> Unless otherwise indicated, Financing excludes Growth & Transition Capital.



To support innovative Canadian companies and create the conditions for success in the venture capital ecosystem, Venture Capital authorized investments totalling \$26.6 million in the second quarter, compared to \$37.7 million in the same period last year. For the six-month period ended September 30, 2016, a total of \$57.0 million was authorized, compared to \$93.2 million in the same period last year. The Canadian venture capital industry investment was lower than in previous years. As a result, Venture Capital experienced reduced activity during the first half of fiscal 2017. However, the pace is expected to pick up during the second half of the year.

BDC Capital's Strategic Initiatives and Partnerships (SIP) team continued to develop innovative initiatives to reinforce key areas of the venture capital ecosystem. It invests in specialized funds, accelerators and graduates of accelerators.

During the quarter, BDC continued to deploy the Venture Capital Action Plan (VCAP), a federal government initiative to invest \$400 million to increase private sector venture capital financing for high-potential, innovative Canadian businesses. As at September 30, 2016, the total VCAP portfolio stood at \$243.0 million, compared to \$137.7 million as at March 31, 2016. VCAP has now met its goal of supporting the closing of four private sector-led funds of funds with a total of \$1.35 billion under management. This has resulted in over \$900 million in private investor capital being added to the ecosystem.

BDC is maintaining its role in the securitization market, where small and medium-sized enterprises access financing for the vehicles and equipment they need to improve productivity. As at September 30, 2016, total asset-backed securities stood at \$510.1 million, compared to \$509.8 million as at March 31, 2016.

During the first six months of fiscal 2017, Advisory Services continued to offer a full range of services to help entrepreneurs address challenges such as operational efficiency, international expansion, sales and marketing, technology implementation and business management. It also has a team of experienced advisors focused on mid-sized high-impact firms that are seeking accelerated growth. Most of what Advisory Services does is considered an investment in increasing the competitiveness of Canadian businesses. BDC takes on a great proportion of the costs associated with these activities and initiatives to ensure that firms can reap maximum benefits. In total, 458

mandates were initiated during the second quarter of fiscal 2017, bringing to 940 the number of mandates during the six-month period ended September 30, 2016. This represents a strong increase when compared to the 413 and 826 mandates initiated during the same periods, respectively, of fiscal 2016.

In the second quarter of fiscal 2017, BDC posted consolidated net income of \$113.5 million, for a total of \$205.9 million for the first half of fiscal 2017. The comparative figures for the same periods in fiscal 2016 were \$140.8 million and \$311.8 million, respectively. The variance compared to fiscal 2016 was mainly attributable to last year's strong Venture Capital results.

For the quarter, other comprehensive loss was \$16.6 million, compared to other comprehensive loss of \$23.9 million for the same period last year. The decrease in other comprehensive loss was due to lower remeasurement loss on the net defined benefit asset or liability. Refer to the consolidated comprehensive income section for further information. For the six-month period, total comprehensive income was \$127.3 million, compared to \$359.8 million for the same period last year.

Recognizing a need to further help Alberta-based small and mid-sized businesses gain access to capital, BDC and ATB Financial (ATB) negotiated a \$1-billion agreement in July to support small businesses. BDC and ATB will each contribute \$500 million in new business loans under the program, the first of its kind involving the two financial institutions. This agreement further demonstrates both BDC's and ATB's commitment to stand by Alberta businesses in good times and difficult times. In addition, both ATB and BDC announced special loan relief measures to help clients affected by the Fort McMurray wildfires.



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

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

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

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

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



# Management Discussion and Analysis

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## Context of the Quarterly Financial Report

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

## Risk Management

Risk is an inherent feature of the financial sector. BDC uses sound practices of integrated risk management (IRM).

BDC manages risk through the development and communication of policies; the establishment of formal risk reviews and approval processes; and the establishment of limits and delegation of authorities. The Board of Directors and its Risk Committee review quarterly IRM reports and monitor the effectiveness of BDC's IRM practices. In each line of business, management ensures that governance activities, controls, processes and procedures are consistent with BDC's sound IRM practices.

No significant changes were made to BDC's IRM practices and no new risks were identified during the quarter ended September 30, 2016.



## Analysis of Financial Results

Analysis of financial results is provided to enable a reader to assess BDC's results of operations and financial condition for the three-month and six-month periods ended September 30, 2016, compared to the corresponding periods of the prior fiscal year. This analysis also includes comments about significant variances from BDC's fiscal 2017–21 Corporate Plan, when applicable.

BDC reports on six business segments: Financing, Growth & Transition Capital, Venture Capital, Advisory Services, Securitization and Venture Capital Action Plan (VCAP). All amounts are in Canadian dollars, unless otherwise specified, and are based on unaudited condensed quarterly Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS).

This analysis should be read in conjunction with the unaudited condensed quarterly Consolidated Financial Statements included in this report and the audited annual Consolidated Financial Statements in the fiscal 2016 Annual Report.

### Consolidated net income

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2017	F2016	F2017	F2016
Financing	118.4	121.8	235.0	243.2
Growth & Transition Capital	18.7	16.5	27.9	21.6
Venture Capital	(16.4)	11.9	(27.3)	66.1
Advisory Services	(11.7)	(7.5)	(22.3)	(15.0)
Securitization	0.8	0.6	1.7	1.2
Venture Capital Action Plan	3.7	(2.5)	(9.1)	(5.3)
<b>Net income</b>	<b>113.5</b>	<b>140.8</b>	<b>205.9</b>	<b>311.8</b>
<b>Net income attributable to:</b>				
BDC's shareholder	113.1	142.7	207.1	313.1
Non-controlling interests	0.4	(1.9)	(1.2)	(1.3)
<b>Net income</b>	<b>113.5</b>	<b>140.8</b>	<b>205.9</b>	<b>311.8</b>

#### Three months ended September 30

BDC reported consolidated net income of \$113.5 million for the second quarter ended September 30, 2016, comprising \$113.1 million attributable to BDC's shareholder and net income of \$0.4 million attributable to non-controlling interests. This compares to \$140.8 million in consolidated net income for the second quarter of fiscal 2016, of which a net loss of \$1.9 million was attributable to non-controlling interests.

Net income in the second quarter of fiscal 2017 was lower than in the corresponding period of fiscal 2016, primarily due to a net loss of \$16.4 million from Venture Capital compared to net income of \$11.9 million recorded in fiscal 2016. Refer to the Venture Capital section of this analysis for further information. Net income for the quarter is higher than the Corporate Plan target for the same period.



**Six months ended September 30**

BDC's consolidated net income was \$205.9 million for the six months ended September 30, 2016, lower than the \$311.8 million recorded for the same period last year, primarily due to a net loss of \$27.3 million from Venture Capital compared to strong net income of \$66.1 million recorded in fiscal 2016. Results for the first half of fiscal 2017 are higher than the Corporate Plan target for that period. Currently, BDC expects its consolidated net income for fiscal 2017 to meet or exceed the Corporate Plan target of \$368 million.

**Consolidated comprehensive income**

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2017	F2016	F2017	F2016
<b>Net income</b>	<b>113.5</b>	140.8	<b>205.9</b>	311.8
<b>Other comprehensive income (loss)</b>				
Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on available-for-sale assets	-	(0.8)	<b>(1.0)</b>	(1.3)
Net change in unrealized gains (losses) on cash flow hedges	<b>(0.1)</b>	0.1	<b>(0.3)</b>	(0.9)
<b>Total items that may be reclassified subsequently to net income</b>	<b>(0.1)</b>	(0.7)	<b>(1.3)</b>	(2.2)
Items that will not be reclassified to net income				
Remeasurements of net defined benefit asset or liability	<b>(16.5)</b>	(23.2)	<b>(77.3)</b>	50.2
<b>Other comprehensive income (loss)</b>	<b>(16.6)</b>	(23.9)	<b>(78.6)</b>	48.0
<b>Total comprehensive income</b>	<b>96.9</b>	116.9	<b>127.3</b>	359.8
<b>Total comprehensive income attributable to:</b>				
BDC's shareholder	<b>96.5</b>	118.8	<b>128.5</b>	361.1
Non-controlling interests	<b>0.4</b>	(1.9)	<b>(1.2)</b>	(1.3)
<b>Total comprehensive income</b>	<b>96.9</b>	116.8	<b>127.3</b>	359.8

**Three and six months ended September 30**

Consolidated total comprehensive income for the second quarter was \$96.9 million, comprising \$113.5 million in consolidated net income and \$16.6 million in other comprehensive loss. For the six-month period ended September 30, 2016, BDC reported total comprehensive income of \$127.3 million, comprising \$205.9 million in net income and \$78.6 million in other comprehensive loss.

BDC recorded other comprehensive loss of \$16.6 million and \$78.6 million, respectively, for the second quarter and the six-month period ended September 30, 2016, compared to other comprehensive loss of \$23.9 million and other comprehensive income of \$48.0 million for the same periods last year.





Remeasurements of net defined benefit asset or liability of \$77.3 million contributed to the decrease in total comprehensive income for the six-month period ended September 30, 2016. These losses were caused by lower discount rates used to value the net defined benefit obligation, partially offset by higher returns on pension plan assets.

## Financing results

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2017	F2016	F2017	F2016
Net interest and fee income	253.7	242.4	502.6	479.2
Provision for credit losses	(35.2)	(33.5)	(73.0)	(61.6)
Net gains (losses) on other financial instruments	0.7	2.4	0.5	3.6
<b>Income before operating and administrative expenses</b>	<b>219.2</b>	<b>211.3</b>	<b>430.1</b>	<b>421.2</b>
Operating and administrative expenses	100.8	89.5	195.1	178.0
<b>Net income from Financing</b>	<b>118.4</b>	<b>121.8</b>	<b>235.0</b>	<b>243.2</b>

As % of average portfolio	Three months ended September 30		Six months ended September 30	
	F2017	F2016	F2017	F2016
Net interest and fee income	4.7	5.0	4.8	5.0
Provision for credit losses	(0.7)	(0.7)	(0.7)	(0.6)
Net gains (losses) on other financial instruments	-	-	-	-
<b>Income before operating and administrative expenses</b>	<b>4.0</b>	<b>4.3</b>	<b>4.1</b>	<b>4.4</b>
Operating and administrative expenses	1.9	1.8	1.9	1.8
<b>Net income from Financing</b>	<b>2.1</b>	<b>2.5</b>	<b>2.2</b>	<b>2.6</b>

### Three and six months ended September 30

Financing's net income was \$118.4 million for the second quarter of fiscal 2017 and \$235.0 million for the six-month period ended September 30, 2016, compared to \$121.8 million and \$243.2 million for the same periods last year. The decrease in profitability for the first half of fiscal 2017 was mainly due to a higher provision for credit losses and higher operating and administrative expenses. However, net interest and fee income increased by \$23.4 million as a result of an 8.6% increase in the average portfolio compared to the same period of fiscal 2016.

The higher provision for credit losses reflected the economic uncertainty resulting from declining oil prices. Despite the increase in the provision for credit losses, the level of losses remained low, at 0.7% of the average portfolio, for both the quarter and six-month period ended September 30, 2016.

Operating and administrative expenses for the first half of fiscal 2017 were higher than those in the corresponding period last year. However, as a percentage of the average portfolio, operating and administrative expenses were comparable to those in the same period of fiscal 2016. The increase was mainly due to costs associated with the deployment of our new brand identity, as well as higher staff levels aimed at increasing BDC's presence across Canada, so that we can help



more entrepreneurs and have a greater impact on their ability to innovate, grow and become more productive. To continue to better serve its clients, BDC is also leveraging its online presence through its Virtual Business Centre and is investing in enhancing its mobile capabilities to make it simpler and faster to secure financing.

## Growth & Transition Capital results

	Three months ended September 30		Six months ended September 30	
	F2017	F2016	F2017	F2016
(\$ in millions)				
Net revenue on investments	31.0	22.6	49.3	42.0
Net change in unrealized appreciation (depreciation) of investments	(4.8)	1.2	(6.0)	(5.8)
<b>Income before operating and administrative expenses</b>	<b>26.2</b>	23.8	<b>43.3</b>	36.2
Operating and administrative expenses	7.5	7.3	15.4	14.6
<b>Net income from Growth &amp; Transition Capital</b>	<b>18.7</b>	16.5	<b>27.9</b>	21.6
<b>Net income attributable to:</b>				
BDC's shareholder	18.4	15.8	27.6	20.6
Non-controlling interests	0.3	0.7	0.3	1.0
<b>Net income from Growth &amp; Transition Capital</b>	<b>18.7</b>	16.5	<b>27.9</b>	21.6

	Three months ended September 30		Six months ended September 30	
	F2017	F2016	F2017	F2016
As % of average portfolio				
Net revenue on investments	15.2	13.5	12.5	12.8
Net change in unrealized appreciation (depreciation) of investments	(2.4)	0.7	(1.5)	(1.8)
<b>Income before operating and administrative expenses</b>	<b>12.8</b>	14.2	<b>11.0</b>	11.0
Operating and administrative expenses	3.7	4.4	3.9	4.4
<b>Net income from Growth &amp; Transition Capital</b>	<b>9.1</b>	9.8	<b>7.1</b>	6.6
<b>Net income attributable to:</b>				
BDC's shareholder	9.0	9.4	7.0	6.3
Non-controlling interests	0.1	0.4	0.1	0.3
<b>Net income from Growth &amp; Transition Capital</b>	<b>9.1</b>	9.8	<b>7.1</b>	6.6

### Three and six months ended September 30

Growth & Transition Capital's net income was \$18.7 million for the second quarter of fiscal 2017 and \$27.9 million for the six months ended September 30, 2016, compared to \$16.5 million and \$21.6 million for the same periods last year.

Net revenue on investments, which comprised net interest income, net realized gains (losses) on investments, and fee and other income reached \$31.0 million for the second quarter and \$49.3 million for the first half of fiscal 2017, compared

## Management Discussion and Analysis



to \$22.6 million and \$42.0 million for the same periods last year. The increase was mainly due to higher net interest income as a result of portfolio growth and to a significant realized gain on the disposal of an equity participation recorded during the second quarter of fiscal 2017. The latter had minimal impact on results due to the reversal of the fair value appreciation previously recorded.

Growth & Transition Capital reported a net change in unrealized depreciation of investments of \$4.8 million for the second quarter and \$6.0 million for the first half of fiscal 2017. This compared to a net change in unrealized appreciation of investments of \$1.2 million and unrealized depreciation of \$5.8 million for the same periods last year, as detailed below.

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2017	F2016	F2017	F2016
Net fair value appreciation (depreciation)	1.4	0.3	(1.6)	(5.0)
Reversal of net fair value depreciation (appreciation) due to realized income and write-offs	(6.2)	0.9	(4.4)	(0.8)
<b>Net change in unrealized appreciation (depreciation) of investments</b>	<b>(4.8)</b>	1.2	<b>(6.0)</b>	(5.8)

Operating and administrative expenses amounted to \$15.4 million for the six-month period ended September 30, 2016, higher than the \$14.6 million recorded last year. The increase was mainly due to higher staff levels required to fully support the growth and transition plans of our clients. However, as a percentage of the average portfolio, operating and administrative expenses decreased compared to fiscal 2016.

## Venture Capital results

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2017	F2016	F2017	F2016
Net revenue (loss) on investments	3.3	14.0	2.2	16.9
Net change in unrealized appreciation (depreciation) of investments	(19.7)	(17.5)	(23.3)	40.2
Net unrealized foreign exchange gains (losses) on investments	5.9	20.8	4.8	19.4
Net gains (losses) on other financial instruments	-	(0.4)	(0.1)	(0.1)
<b>Income before operating and administrative expenses</b>	<b>(10.5)</b>	16.9	<b>(16.4)</b>	76.4
Operating and administrative expenses	5.9	5.0	10.9	10.3
<b>Net income (loss) from Venture Capital</b>	<b>(16.4)</b>	11.9	<b>(27.3)</b>	66.1
<b>Net income attributable to:</b>				
BDC's shareholder	(16.5)	14.5	(25.8)	68.4
Non-controlling interests	0.1	(2.6)	(1.5)	(2.3)
<b>Net income (loss) from Venture Capital</b>	<b>(16.4)</b>	11.9	<b>(27.3)</b>	66.1



## Three and six months ended September 30

During the second quarter of fiscal 2017, Venture Capital recorded a net loss of \$16.4 million, compared to a net income of \$11.9 million for the same period last year. For the six months ended September 30, 2016, the net loss was \$27.3 million, compared to the net income of \$66.1 million recorded for the same period last year. Fiscal 2016 net income was favourably impacted by a higher unrealized appreciation of investments following an external round of financing for one of our investees and by higher net unrealized foreign exchange gains on the U.S. portfolio.

Net revenue on investments was \$3.3 million for the second quarter and \$2.2 million for the first half of fiscal 2017, compared to \$14.0 million and \$16.9 million, respectively, for the same periods last year. The decrease was primarily due to lower net realized gains on divestiture of investments. During the second quarter and first half of fiscal 2017, proceeds received from divestiture of investments were \$11.0 million and \$45.0 million, respectively, lower than the \$33.0 million and \$58.0 million received for the same periods of fiscal 2016.

Venture Capital recorded a net change in unrealized depreciation of investments of \$19.7 million for the second quarter of fiscal 2017 and of \$23.3 million for the first half of fiscal 2017. This compared to a net change in unrealized depreciation of \$17.5 million and unrealized appreciation of \$40.2 million for the same periods last year, as detailed below.

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2017	F2016	F2017	F2016
Net fair value appreciation (depreciation)	(18.6)	(9.1)	(28.1)	46.0
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	(1.1)	(8.4)	4.8	(5.8)
<b>Net change in unrealized appreciation (depreciation) of investments</b>	<b>(19.7)</b>	<b>(17.5)</b>	<b>(23.3)</b>	<b>40.2</b>

Net fair value depreciation for the second quarter was \$18.6 million, compared to \$9.1 million for the same period last year. The increase was mainly driven by higher fair value depreciation related to the direct investments portfolio and by lower fair value appreciation from the funds investments portfolio. For the first half of fiscal 2017, net fair value depreciation was \$28.1 million compared to net fair value appreciation of \$46.0 million recorded last year as a result of an external round of financing for one of our investees in fiscal 2016.

Net unrealized foreign exchange gains on investments were due to foreign exchange fluctuations on the U.S. dollar and were lower than last year due to a more stable Canadian dollar.

On a year-to-date basis, operating and administrative expenses were slightly higher than those recorded for the same period of fiscal 2016.



## Advisory Services results

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2017	F2016	F2017	F2016
Revenue	4.8	3.6	9.1	7.2
Operating and administrative expenses	16.5	11.1	31.4	22.2
<b>Net loss from Advisory Services</b>	<b>(11.7)</b>	<b>(7.5)</b>	<b>(22.3)</b>	<b>(15.0)</b>

### Three and six months ended September 30

At the beginning of fiscal 2017, BDC Advantage was renamed Advisory Services, to better reflect the full range of non-financial services offered to entrepreneurs. In total, 458 mandates were initiated during the second quarter of fiscal 2017, bringing to 940 the number of mandates during the six-month period ended September 30, 2016. These figures compared to 413 and 826, respectively, during the same periods of fiscal 2016.

Advisory Services' net loss was \$11.7 million for the second quarter of fiscal 2017, compared to a \$7.5 million net loss recorded for the same quarter last year. Cumulative net loss for the six-month period ended September 30, 2016, was \$22.3 million, compared to \$15.0 million for the same period last year.

Revenue was \$4.8 million and \$9.1 million, respectively, for the second quarter and the first six months of fiscal 2017, 33% and 26% higher than revenue recorded for the same periods last year, respectively.

On a year-to-date basis, operating and administrative expenses of \$31.4 million were \$9.2 million higher than those recorded in the same period of fiscal 2016, as BDC continued to allocate resources to develop its range of other non-financial services, including new offerings for Canada's high-impact firms and an enhanced offering to help businesses expand internationally.

## Securitization results

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2017	F2016	F2017	F2016
Net revenue	1.5	1.2	3.0	2.3
Operating and administrative expenses	0.7	0.6	1.3	1.1
<b>Net income from Securitization</b>	<b>0.8</b>	<b>0.6</b>	<b>1.7</b>	<b>1.2</b>

### Three and six months ended September 30

Net income from Securitization for the second quarter of fiscal 2017 was \$0.8 million for a total of \$1.7 million for the six-month period ended September 30, 2016. These figures compared to net income from Securitization of \$0.6 million and \$1.2 million, respectively, for the same periods last year.

Net revenue was \$3.0 million for the first half of fiscal 2017, higher than the \$2.3 million recorded for the same period last year. This was mainly due to higher net interest income as a result of the growth of the asset-backed securities portfolio in the first half of fiscal 2017, compared to the same period last year.



Operating and administrative expenses for the three-month and six-month periods ended September 30, 2016, were slightly higher than those reported for the same period last year, but consistent as a percentage of the average portfolio.

## Venture Capital Action Plan results

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2017	F2016	F2017	F2016
Net revenue (loss) on investments	-	0.3	0.1	0.2
Net change in unrealized appreciation (depreciation) of investments	3.8	(2.5)	(8.9)	(5.0)
<b>Income (loss) before operating and administrative expenses</b>	<b>3.8</b>	<b>(2.2)</b>	<b>(8.8)</b>	<b>(4.8)</b>
Operating and administrative expenses	0.1	0.3	0.3	0.5
<b>Net income (loss) from Venture Capital Action Plan</b>	<b>3.7</b>	<b>(2.5)</b>	<b>(9.1)</b>	<b>(5.3)</b>

### Three and six months ended September 30

During the second quarter of fiscal 2017, Venture Capital Action Plan (VCAP) recorded net income of \$3.7 million, compared to a net loss of \$2.5 million for the same period last year. Net income was favourably impacted by higher net change in unrealized appreciation of investments as a result of an increase in the fair value of the underlying funds.

For the six-month period ended September 30, 2016, VCAP recorded a net loss of \$9.1 million, compared to a net loss of \$5.3 million for the same period last year. Net change in unrealized depreciation of investments was impacted by a decrease in the fair value of underlying funds, as well as expenses related to the closing of two funds of funds.

On a year-to-date basis, operating and administrative expenses of \$0.3 million were comparable to those recorded in the same period of fiscal 2016.

## Consolidated statement of financial position and cash flows

As at September 30, 2016, total BDC assets amounted to \$24.1 billion, an increase of \$1.2 billion from March 31, 2016, mainly due to the increase in loans and investments.

At \$20.8 billion, the loan portfolio represented BDC's largest asset (\$21.4 billion in gross portfolio less a \$0.6 billion allowance for credit losses). The gross loan portfolio grew by 5.6% in the six months after March 31, 2016.

BDC's investment portfolios, which include the subordinate financing, venture capital and venture capital action plan portfolios, stood at \$2.0 billion, compared to \$1.8 billion as at March 31, 2016. The asset-backed securities portfolio stood at \$510.1 million, compared to \$509.8 million as at March 31, 2016.

Derivative assets of \$31.1 million and derivative liabilities of \$2.9 million reflected the fair value of derivative financial instruments as at September 30, 2016. Net derivative fair value decreased by \$19.4 million, compared to the fair value as at March 31, 2016, primarily due to maturities, redemptions and a decrease in fair value.

As at September 30, 2016, BDC recorded a net defined benefit liability of \$246.4 million. This represented an increase of \$82.4 million compared to the total net defined benefit liability as at March 31, 2016, primarily as the result of remeasurement losses recorded during the six-month period ended September 30, 2016. Refer to page 9 of this report for further information on remeasurements of net defined benefit asset or liability.



BDC holds cash and cash equivalents in accordance with its Treasury Risk Policy. The Bank's liquidities, which ensure funds are available to meet BDC's cash outflows, totalled \$685.2 million as at September 30, 2016, compared to \$680.1 million as at March 31, 2016. For the six-month period ended September 30, 2016, cash flow used by investing activities amounted to \$230.8 million, mainly as a result of net disbursements of subordinate financing, venture capital and venture capital action plan investments. Financing activities provided \$1.1 billion in cash flow, mainly as a result of the issuance of short-term notes, partially offset by the repayment of long-term notes and the payment of dividends. Operating activities used \$852.2 million, mainly due to the increase in the loans portfolio.

As at September 30, 2016, BDC funded its portfolios and liquidities with borrowings of \$18.3 billion and total equity of \$5.4 billion. Borrowings comprised \$18.1 billion in short-term notes and \$0.2 billion in long-term notes.



# Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)

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## Management's Responsibility for Financial Information

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

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

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**Michael Denham**  
President and Chief Executive Officer

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**Paul Buron, CPA, CA**  
Executive Vice President and Chief Financial Officer

Montreal, Canada  
November 9, 2016



## Consolidated Statement of Financial Position

(unaudited)

(in thousands of Canadian dollars)	Notes	September 30, 2016	March 31, 2016
<b>ASSETS</b>			
Cash and cash equivalents		685,163	680,093
Derivative assets		31,116	51,687
Loans and investments			
Asset-backed securities	6	510,075	509,758
Loans	7	20,810,883	19,717,706
Subordinate financing investments	8	822,988	751,404
Venture capital investments	9	948,956	928,000
Venture capital action plan investments	10	242,965	137,668
<b>Total loans and investments</b>		<b>23,335,867</b>	22,044,536
Property and equipment		23,709	22,849
Intangible assets		33,808	38,446
Net defined benefit asset		-	53,995
Other assets		13,659	14,297
<b>Total assets</b>		<b>24,123,322</b>	22,905,903
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Accounts payable and accrued liabilities		73,605	96,966
Derivative liabilities		2,929	4,077
Borrowings			
Short-term notes		18,147,179	16,848,041
Long-term notes		197,827	350,268
<b>Total borrowings</b>		<b>18,345,006</b>	17,198,309
Net defined benefit liability		246,445	217,996
Other liabilities		48,892	39,036
<b>Total liabilities</b>		<b>18,716,877</b>	17,556,384
<b>Equity</b>			
Share capital	11	2,288,400	2,288,400
Contributed surplus		27,778	27,778
Retained earnings		3,064,564	3,003,483
Accumulated other comprehensive income		2,506	3,812
<b>Equity attributable to BDC's shareholder</b>		<b>5,383,248</b>	5,323,473
Non-controlling interests		23,197	26,046
<b>Total equity</b>		<b>5,406,445</b>	5,349,519
<b>Total liabilities and equity</b>		<b>24,123,322</b>	22,905,903
<b>Guarantees (Note 13)</b>			
<b>Commitments (Note 14)</b>			

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



## Consolidated Statement of Income

(unaudited)

(in thousands of Canadian dollars)	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
Interest income	290,404	272,071	568,770	543,272
Interest expense	20,369	17,767	39,836	40,961
<b>Net interest income</b>	<b>270,035</b>	<b>254,304</b>	<b>528,934</b>	<b>502,311</b>
Net realized gains (losses) on investments	7,098	10,876	3,164	13,755
Consulting revenue	4,820	3,618	9,112	7,172
Fee and other income	12,491	15,150	25,244	24,630
Net realized gains (losses) on other financial instruments	26	(210)	2,063	189
<b>Net revenue</b>	<b>294,470</b>	<b>283,738</b>	<b>568,517</b>	<b>548,057</b>
Provision for credit losses	(35,219)	(33,472)	(73,033)	(61,631)
Net change in unrealized appreciation (depreciation) of investments	(20,747)	(18,790)	(38,292)	29,389
Net unrealized foreign exchange gains (losses) on investments	5,950	20,801	4,869	19,350
Net unrealized gains (losses) on other financial instruments	628	2,295	(1,708)	3,381
<b>Income before operating and administrative expenses</b>	<b>245,082</b>	<b>254,572</b>	<b>460,353</b>	<b>538,546</b>
Salaries and benefits	90,302	82,128	176,622	163,377
Premises and equipment	9,781	9,113	19,931	18,603
Other expenses	31,487	22,484	57,920	44,710
<b>Operating and administrative expenses</b>	<b>131,570</b>	<b>113,725</b>	<b>254,473</b>	<b>226,690</b>
<b>Net income</b>	<b>113,512</b>	<b>140,847</b>	<b>205,880</b>	<b>311,856</b>
<b>Net income attributable to:</b>				
BDC's shareholder	113,143	142,778	207,045	313,135
Non-controlling interests	369	(1,931)	(1,165)	(1,279)
<b>Net income</b>	<b>113,512</b>	<b>140,847</b>	<b>205,880</b>	<b>311,856</b>

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



## Consolidated Statement of Comprehensive Income

(unaudited)

(in thousands of Canadian dollars)	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
<b>Net income</b>	<b>113,512</b>	140,847	<b>205,880</b>	311,856
<b>Other comprehensive income (loss)</b>				
Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on available-for-sale assets	24	(868)	(1,022)	(1,262)
Net unrealized gains (losses) on cash flow hedges	(17)	141	(183)	(907)
Reclassification to net income of losses (gains) on cash flow hedges	(54)	(44)	(101)	(88)
Net change in unrealized gains (losses) on cash flow hedges	(71)	97	(284)	(995)
Total items that may be reclassified subsequently to net income	(47)	(771)	(1,306)	(2,257)
Items that will not be reclassified to net income				
Remeasurements of net defined benefit asset or liability	(16,549)	(23,171)	(77,315)	50,215
<b>Other comprehensive income (loss)</b>	<b>(16,596)</b>	(23,942)	<b>(78,621)</b>	47,958
<b>Total comprehensive income</b>	<b>96,916</b>	116,905	<b>127,259</b>	359,814
<b>Total comprehensive income attributable to:</b>				
BDC's shareholder	96,547	118,836	128,424	361,093
Non-controlling interests	369	(1,931)	(1,165)	(1,279)
<b>Total comprehensive income</b>	<b>96,916</b>	116,905	<b>127,259</b>	359,814

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



## Consolidated Statement of Changes in Equity

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

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)			Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
				Available-for-sale assets	Cash flow hedges	Total			
<b>Balance as at June 30, 2016</b>	2,288,400	27,778	2,967,970	(89)	2,642	2,553	5,286,701	24,092	5,310,793
Total comprehensive income									
Net income			113,143				113,143	369	113,512
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				24		24	24		24
Net change in unrealized gains (losses) on cash flow hedges					(71)	(71)	(71)		(71)
Remeasurements of net defined benefit asset or liability			(16,549)				(16,549)		(16,549)
Other comprehensive income (loss)	-	-	(16,549)	24	(71)	(47)	(16,596)	-	(16,596)
Total comprehensive income	-	-	96,594	24	(71)	(47)	96,547	369	96,916
Distributions to non-controlling interests								(1,324)	(1,324)
Capital injections from non-controlling interests								60	60
Transactions with owner, recorded directly in equity	-	-	-	-	-	-	-	(1,264)	(1,264)
<b>Balance as at September 30, 2016</b>	2,288,400	27,778	3,064,564	(65)	2,571	2,506	5,383,248	23,197	5,406,445

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)			Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
				Available-for-sale assets	Cash flow hedges	Total			
<b>Balance as at June 30, 2015</b>	2,288,400	27,778	2,751,309	3,553	2,895	6,448	5,073,935	32,155	5,106,090
Total comprehensive income									
Net income			142,778				142,778	(1,931)	140,847
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				(868)		(868)	(868)		(868)
Net change in unrealized gains (losses) on cash flow hedges					97	97	97		97
Remeasurements of net defined benefit asset or liability			(23,171)				(23,171)		(23,171)
Other comprehensive income (loss)	-	-	(23,171)	(868)	97	(771)	(23,942)	-	(23,942)
Total comprehensive income	-	-	119,607	(868)	97	(771)	118,836	(1,931)	116,905
Distributions to non-controlling interests								(4,287)	(4,287)
Capital injections from non-controlling interests								51	51
Transactions with owner, recorded directly in equity	-	-	-	-	-	-	-	(4,236)	(4,236)
<b>Balance as at September 30, 2015</b>	2,288,400	27,778	2,870,916	2,685	2,992	5,677	5,192,771	25,988	5,218,759

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



## Consolidated Statement of Changes in Equity

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

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)			Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
				Available-for-sale assets	Cash flow hedges	Total			
<b>Balance as at March 31, 2016</b>	2,288,400	27,778	3,003,483	957	2,855	3,812	5,323,473	26,046	5,349,519
<b>Total comprehensive income</b>									
Net income			207,045				207,045	(1,165)	205,880
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				(1,022)		(1,022)	(1,022)		(1,022)
Net change in unrealized gains (losses) on cash flow hedges					(284)	(284)	(284)		(284)
Remeasurements of net defined benefit asset or liability			(77,315)				(77,315)		(77,315)
Other comprehensive income (loss)	-	-	(77,315)	(1,022)	(284)	(1,306)	(78,621)	-	(78,621)
<b>Total comprehensive income</b>	-	-	129,730	(1,022)	(284)	(1,306)	128,424	(1,165)	127,259
Dividends on common shares			(68,649)				(68,649)		(68,649)
Distributions to non-controlling interests								(2,264)	(2,264)
Capital injections from non-controlling interests								580	580
Transactions with owner, recorded directly in equity	-	-	(68,649)	-	-	-	(68,649)	(1,684)	(70,333)
<b>Balance as at September 30, 2016</b>	2,288,400	27,778	3,064,564	(65)	2,571	2,506	5,383,248	23,197	5,406,445

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)			Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
				Available-for-sale assets	Cash flow hedges	Total			
<b>Balance as at March 31, 2015</b>	2,138,400	27,778	2,570,454	3,947	3,987	7,934	4,744,566	34,554	4,779,120
<b>Total comprehensive income</b>									
Net income			313,135				313,135	(1,279)	311,856
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				(1,262)		(1,262)	(1,262)		(1,262)
Net change in unrealized gains (losses) on cash flow hedges					(995)	(995)	(995)		(995)
Remeasurements of net defined benefit asset or liability			50,215				50,215		50,215
Other comprehensive income (loss)	-	-	50,215	(1,262)	(995)	(2,257)	47,958	-	47,958
<b>Total comprehensive income</b>	-	-	363,350	(1,262)	(995)	(2,257)	361,093	(1,279)	359,814
Issuance of shares	150,000						150,000		150,000
Dividends on common shares			(62,888)				(62,888)		(62,888)
Distributions to non-controlling interests								(8,070)	(8,070)
Capital injections from non-controlling interests								783	783
Transactions with owner, recorded directly in equity	150,000	-	(62,888)	-	-	-	87,112	(7,287)	79,825
<b>Balance as at September 30, 2015</b>	2,288,400	27,778	2,870,916	2,685	2,992	5,677	5,192,771	25,988	5,218,759

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



# Consolidated Statement of Cash Flows

(unaudited)

(in thousands of Canadian dollars)	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
<b>Operating activities</b>				
Net income	113,512	140,847	205,880	311,856
Adjustments to determine net cash flows				
Interest income	(290,404)	(272,071)	(568,770)	(543,272)
Interest expense	20,369	17,767	39,836	40,961
Net realized losses (gains) on investments	(7,098)	(10,876)	(3,164)	(13,755)
Provision for credit losses	35,219	33,472	73,033	61,631
Net change in unrealized depreciation (appreciation) on investments	20,747	18,790	38,292	(29,389)
Net unrealized foreign exchange losses (gains) on investments	(5,950)	(20,801)	(4,869)	(19,350)
Net unrealized losses (gains) on other financial instruments	(628)	(2,295)	1,708	(3,381)
Defined benefits funding below (in excess) of amounts expensed	9,723	3,088	5,130	(663)
Depreciation of property and equipment, and amortization of intangible assets	3,904	4,408	7,849	8,797
Other	(3,320)	(12,501)	(8,899)	(10,166)
Interest expense paid	(22,509)	(22,070)	(40,713)	(42,226)
Interest income received	282,961	264,761	555,378	530,404
Disbursements for loans	(1,651,481)	(1,148,816)	(3,046,373)	(2,182,714)
Repayments of loans	1,032,169	774,176	1,906,381	1,593,234
Changes in operating assets and liabilities				
Net change in accounts payable and accrued liabilities	(33,816)	(40,309)	(23,361)	(31,010)
Net change in other assets and other liabilities	13,043	5,415	10,494	(2,304)
<b>Net cash flows provided (used) by operating activities</b>	<b>(483,559)</b>	<b>(267,015)</b>	<b>(852,168)</b>	<b>(331,347)</b>
<b>Investing activities</b>				
Disbursements for asset-backed securities	(70,965)	(116,734)	(117,171)	(196,196)
Repayments and proceeds on sale of asset-backed securities	57,907	50,955	115,815	103,267
Disbursements for subordinate financing investments	(71,831)	(67,784)	(148,070)	(122,521)
Repayments of subordinate financing investments	47,640	55,201	74,792	88,469
Disbursements for venture capital investments	(37,171)	(46,065)	(82,895)	(99,737)
Proceeds on sale of venture capital investments	11,016	32,987	45,026	58,013
Disbursements for venture capital action plan investments	(45,834)	(21,131)	(114,289)	(41,123)
Proceeds on sale of venture capital action plan investments	23	222	77	222
Acquisition of property and equipment	(2,621)	(2,208)	(3,713)	(3,997)
Acquisition of intangible assets	(358)	-	(358)	-
<b>Net cash flows provided (used) by investing activities</b>	<b>(112,194)</b>	<b>(114,557)</b>	<b>(230,786)</b>	<b>(213,603)</b>
<b>Financing activities</b>				
Net change in short-term notes	665,137	454,138	1,299,206	543,138
Repayment of long-term notes	(30,300)	(45,801)	(140,849)	(72,699)
Distributions to non-controlling interests	(1,324)	(4,287)	(2,264)	(8,070)
Capital injections from non-controlling interests	60	51	580	783
Issue of common shares	-	-	-	150,000
Dividends paid on common shares	-	-	(68,649)	(62,888)
<b>Net cash flows provided (used) by financing activities</b>	<b>633,573</b>	<b>404,101</b>	<b>1,088,024</b>	<b>550,264</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>37,820</b>	<b>22,529</b>	<b>5,070</b>	<b>5,314</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>647,343</b>	<b>649,869</b>	<b>680,093</b>	<b>667,084</b>
<b>Cash and cash equivalents at end of period</b>	<b>685,163</b>	<b>672,398</b>	<b>685,163</b>	<b>672,398</b>

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



# Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)

## 1.

### BDC General Description

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

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

## 2.

### Basis of Preparation

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

BDC's condensed quarterly Consolidated Financial Statements follow the same basis of preparation as our audited Consolidated Financial Statements for the year ended March 31, 2016. For complete information on the basis of preparation, refer to page 59 of our 2016 Annual Report.

These condensed quarterly Consolidated Financial Statements have been prepared using International Financial Reporting Standards (IFRS). The condensed quarterly Consolidated Financial Statements have also been prepared in accordance with the accounting policies BDC expects to use in its annual Consolidated Financial Statements for the year ending March 31, 2017. If BDC changes the application of these policies, it may result in a restatement of these condensed quarterly Consolidated Financial Statements.

These condensed quarterly Consolidated Financial Statements were approved for issue by the Board of Directors on November 9, 2016.





### 3.

#### Significant Accounting Policies

BDC's condensed quarterly Consolidated Financial Statements follow the same accounting policies as our audited Consolidated Financial Statements for the year ended March 31, 2016. These policies have been consistently applied to all periods presented in these condensed quarterly Consolidated Financial Statements and have been applied consistently by all entities consolidated by BDC.

These condensed quarterly Consolidated Financial Statements must be read in conjunction with BDC's 2016 Annual Report and the accompanying notes, as set out on pages 58 to 117 of our 2016 Annual Report.

### 4.

#### Significant Accounting Judgements, Estimates and Assumptions

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

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

For information about the significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the condensed quarterly Consolidated Financial Statements, refer to page 69 of our 2016 Annual Report.



## 5.

### Classification and Fair Value of Financial Instruments

#### Classification of financial instruments

The following tables summarize the classification of BDC's financial instruments as at September 30, 2016, and March 31, 2016.

September 30, 2016								
	Note	Measured at fair value				Measured at amortized cost		Total
		FVTPL <sup>(1)</sup>		Available-for-sale	Cash flow hedges	Loans and receivables	Financial liabilities	
		Held-for-trading	Designated as at FVTPL					
<b>Financial assets</b>								
Cash and cash equivalents						685,163	685,163	
Derivative assets		28,656			2,460		31,116	
Asset-backed securities	6		8,208	501,867			510,075	
Loans	7					20,810,883	20,810,883	
Subordinate financing investments	8		822,988				822,988	
Venture capital investments	9		948,956				948,956	
Venture capital action plan investments	10		242,965				242,965	
Other assets <sup>(2)</sup>						5,587	5,587	
<b>Total financial assets</b>		<b>28,656</b>	<b>2,023,117</b>	<b>501,867</b>	<b>2,460</b>	<b>21,501,633</b>	<b>-</b>	<b>24,057,733</b>
<b>Financial liabilities</b>								
Accounts payable and accrued liabilities							73,605	73,605
Derivative liabilities		2,929						2,929
Short-term notes							18,147,179	18,147,179
Long-term notes			173,687				24,140	197,827
Other liabilities <sup>(2)</sup>							35,192	35,192
<b>Total financial liabilities</b>		<b>2,929</b>	<b>173,687</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,280,116</b>	<b>18,456,732</b>

March 31, 2016								
	Note	Measured at fair value				Measured at amortized cost		Total
		FVTPL <sup>(1)</sup>		Available-for-sale	Cash flow hedges	Loans and receivables	Financial liabilities	
		Held-for-trading	Designated as at FVTPL					
<b>Financial assets</b>								
Cash and cash equivalents						680,093	680,093	
Derivative assets		48,963			2,724		51,687	
Asset-backed securities	6		7,152	502,606			509,758	
Loans	7					19,717,706	19,717,706	
Subordinate financing investments	8		751,404				751,404	
Venture capital investments	9		928,000				928,000	
Venture capital action plan investments	10		137,668				137,668	
Other assets <sup>(2)</sup>						9,350	9,350	
<b>Total financial assets</b>		<b>48,963</b>	<b>1,824,224</b>	<b>502,606</b>	<b>2,724</b>	<b>20,407,149</b>	<b>-</b>	<b>22,785,666</b>
<b>Financial liabilities</b>								
Accounts payable and accrued liabilities							96,966	96,966
Derivative liabilities		4,068			9			4,077
Short-term notes							16,848,041	16,848,041
Long-term notes			251,916				98,352	350,268
Other liabilities <sup>(2)</sup>							28,908	28,908
<b>Total financial liabilities</b>		<b>4,068</b>	<b>251,916</b>	<b>-</b>	<b>9</b>	<b>-</b>	<b>17,072,267</b>	<b>17,328,260</b>

<sup>(1)</sup> Fair value through profit or loss.

<sup>(2)</sup> Certain items within the other assets and other liabilities categories on the Consolidated Statement of Financial Position are not considered to be financial instruments.

## Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



### Fair value of financial instruments

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

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

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

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

	Fair value measurements using			September 30, 2016
	Level 1	Level 2	Level 3	Total fair value
<b>Assets</b>				
Derivative assets		31,116		31,116
Asset-backed securities		510,075		510,075
Subordinate financing investments	1,396		821,592	822,988
Venture capital investments	12,165		936,791	948,956
Venture capital action plan investments			242,965	242,965
	13,561	541,191	2,001,348	2,556,100
<b>Liabilities</b>				
Derivative liabilities		2,929		2,929
Long-term notes designated as at FVTPL <sup>(1)</sup>		173,687		173,687
	-	176,616	-	176,616

	Fair value measurements using			March 31, 2016
	Level 1	Level 2	Level 3	Total fair value
<b>Assets</b>				
Derivative assets		51,687		51,687
Asset-backed securities		509,758		509,758
Subordinate financing investments	824		750,580	751,404
Venture capital investments	11,905		916,095	928,000
Venture capital action plan investments			137,668	137,668
	12,729	561,445	1,804,343	2,378,517
<b>Liabilities</b>				
Derivative liabilities		4,077		4,077
Long-term notes designated as at FVTPL <sup>(1)</sup>		251,916		251,916
	-	255,993	-	255,993

<sup>(1)</sup> Fair value through profit or loss.

## Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

	September 30, 2016			
	Subordinate financing investments	Venture capital investments	Venture capital action plan investments	Total
Fair value as at April 1, 2016	750,580	916,095	137,668	1,804,343
Net realized gains (losses) on investments	3,831	(3,027)	-	804
Net change in unrealized appreciation (depreciation) of investments	(6,590)	(22,151)	(8,942)	(37,683)
Net unrealized foreign exchange gains (losses) on investments	-	4,839	27	4,866
Disbursements for investments	148,070	82,895	114,289	345,254
Repayments of investments and other	(74,299)	(35,952)	(77)	(110,328)
Transfers from level 3 to level 1	-	(5,908)	-	(5,908)
<b>Fair value as at September 30, 2016</b>	<b>821,592</b>	<b>936,791</b>	<b>242,965</b>	<b>2,001,348</b>

	March 31, 2016			
	Subordinate financing investments	Venture capital investments	Venture capital action plan investments	Total
Fair value as at April 1, 2015	642,203	707,768	47,643	1,397,614
Net realized gains (losses) on investments	394	(6,545)	-	(6,151)
Net change in unrealized appreciation (depreciation) of investments	258	82,792	3,958	87,008
Net unrealized foreign exchange gains (losses) on investments	-	8,258	(71)	8,187
Disbursements for investments	254,076	228,915	86,367	569,358
Repayments of investments and other	(146,351)	(95,478)	(229)	(242,058)
Transfers from level 3 to level 1	-	(9,615)	-	(9,615)
<b>Fair value as at March 31, 2016</b>	<b>750,580</b>	<b>916,095</b>	<b>137,668</b>	<b>1,804,343</b>



## 6. Asset-Backed Securities

	September 30, 2016	March 31, 2016
<b>Available-for-sale</b>		
Principal amount	501,932	501,649
Cumulative fair value appreciation (depreciation)	(65)	957
Carrying value	501,867	502,606
Yield	1.79%	1.77%
<b>Fair value through profit or loss</b>		
Principal amount	8,173	7,105
Cumulative fair value appreciation (depreciation)	35	47
Carrying value	8,208	7,152
Yield	6.90%	6.95%
<b>Asset-backed securities</b>	<b>510,075</b>	<b>509,758</b>

No asset-backed securities were impaired as at September 30 or March 31, 2016.

## 7. Loans

The following tables summarize loans outstanding by contractual maturity date.

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	266,708	2,521,028	18,065,610	20,853,346	(395,000)	-	(395,000)	20,458,346
Impaired	13,337	92,199	496,190	601,726	-	(249,189)	(249,189)	352,537
<b>Loans as at September 30, 2016</b>	<b>280,045</b>	<b>2,613,227</b>	<b>18,561,800</b>	<b>21,455,072</b>	<b>(395,000)</b>	<b>(249,189)</b>	<b>(644,189)</b>	<b>20,810,883</b>

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	220,222	2,292,473	17,256,082	19,768,777	(390,000)	-	(390,000)	19,378,777
Impaired	19,837	74,442	460,374	554,653	-	(215,724)	(215,724)	338,929
<b>Loans as at March 31, 2016</b>	<b>240,059</b>	<b>2,366,915</b>	<b>17,716,456</b>	<b>20,323,430</b>	<b>(390,000)</b>	<b>(215,724)</b>	<b>(605,724)</b>	<b>19,717,706</b>

### Allowance for credit losses

	September 30, 2016	March 31, 2016
Balance at beginning of period	605,724	529,923
Write-offs	(33,344)	(81,127)
Effect of discounting	(7,009)	(13,395)
Recoveries and other	5,785	9,414
	571,156	444,815
Provision for credit losses	73,033	160,909
<b>Balance at end of period</b>	<b>644,189</b>	<b>605,724</b>

## Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



### Concentrations of total loans outstanding

<b>Geographic distribution</b>	<b>September 30, 2016</b>	<b>March 31, 2016</b>
Newfoundland and Labrador	860,687	849,591
Prince Edward Island	55,622	56,456
Nova Scotia	543,787	528,651
New Brunswick	458,100	467,311
Quebec	6,744,039	6,496,866
Ontario	5,662,045	5,242,987
Manitoba	680,140	653,069
Saskatchewan	742,259	701,224
Alberta	3,213,040	3,000,998
British Columbia	2,366,491	2,200,621
Yukon	98,918	95,400
Northwest Territories and Nunavut	29,944	30,256
<b>Total loans outstanding</b>	<b>21,455,072</b>	<b>20,323,430</b>

<b>Industry sector</b>	<b>September 30, 2016</b>	<b>March 31, 2016</b>
Manufacturing	4,878,353	4,503,108
Wholesale and retail trade	4,158,853	4,109,247
Service industries	2,882,517	2,681,948
Tourism	2,660,816	2,562,826
Commercial properties	2,252,446	2,166,365
Construction	1,841,785	1,714,697
Transportation and storage	1,260,722	1,221,123
Resources	875,257	811,028
Other	644,323	553,088
<b>Total loans outstanding</b>	<b>21,455,072</b>	<b>20,323,430</b>

## Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



### 8.

#### Subordinate Financing Investments

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

	Within 1 year	1 to 5 years	Over 5 years	Total cost	Total fair value
As at September 30, 2016	77,672	634,075	131,904	843,651	822,988
As at March 31, 2016	76,089	565,188	124,772	766,049	751,404

#### Concentrations of total subordinate financing investments

Geographic distribution	September 30, 2016		March 31, 2016	
	Fair value	Cost	Fair value	Cost
Newfoundland and Labrador	6,654	6,729	5,252	5,773
Nova Scotia	20,168	20,414	16,963	17,108
New Brunswick	30,808	26,554	29,135	25,426
Quebec	319,690	334,676	302,632	319,494
Ontario	298,094	295,850	262,383	260,106
Manitoba	6,838	6,305	14,097	7,260
Saskatchewan	16,950	16,839	14,957	14,529
Alberta	83,546	94,162	72,650	80,877
British Columbia	36,674	38,362	29,776	31,715
Yukon	2,558	2,656	2,548	2,656
Northwest Territories and Nunavut	1,008	1,104	1,011	1,105
<b>Subordinate financing investments</b>	<b>822,988</b>	<b>843,651</b>	<b>751,404</b>	<b>766,049</b>

Industry sector	September 30, 2016		March 31, 2016	
	Fair value	Cost	Fair value	Cost
Manufacturing	273,643	279,116	259,348	267,869
Service industries	185,695	194,754	170,955	179,235
Wholesale and retail trade	150,352	151,285	133,656	135,052
Construction	66,834	66,943	68,130	60,652
Resources	60,160	67,732	45,820	53,125
Information industries	36,987	37,523	28,237	28,473
Transportation and storage	14,025	14,415	10,350	10,850
Tourism	9,405	9,905	5,229	5,866
Educational services	3,917	3,909	2,796	2,728
Other	21,970	18,069	26,883	22,199
<b>Subordinate financing investments</b>	<b>822,988</b>	<b>843,651</b>	<b>751,404</b>	<b>766,049</b>

## Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



### 9.

#### Venture Capital Investments

BDC maintains a high-risk portfolio of venture capital investments that is focused on early-stage and fast-growing technology companies having promising positions in their respective marketplaces and strong growth potential. The concentrations and investment types of venture capital investments are listed below.

Industry sector	September 30, 2016		March 31, 2016	
	Fair value	Cost	Fair value	Cost
Information technology	213,119	206,514	200,706	188,322
Biotechnology and pharmacology	152,388	126,351	140,414	102,042
Electronics	70,784	83,251	81,986	92,041
Communications	44,880	42,967	43,887	43,484
Medical and health	35,047	53,789	40,763	52,739
Industrial	15,130	16,008	12,135	17,785
Energy	11,564	9,762	23,457	26,073
Other	8,572	8,495	9,506	8,495
Total direct investments	551,484	547,137	552,854	530,981
Funds	397,472	310,549	375,146	287,271
<b>Venture capital investments</b>	<b>948,956</b>	<b>857,686</b>	<b>928,000</b>	<b>818,252</b>

Investment type	September 30, 2016		March 31, 2016	
	Fair value	Cost	Fair value	Cost
Common shares	50,248	75,246	60,298	80,567
Preferred shares	467,920	429,682	438,341	394,025
Debentures	33,316	42,209	54,215	56,389
Total direct investments	551,484	547,137	552,854	530,981
Funds	397,472	310,549	375,146	287,271
<b>Venture capital investments</b>	<b>948,956</b>	<b>857,686</b>	<b>928,000</b>	<b>818,252</b>





# 10.

## Venture Capital Action Plan Investments

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

Venture Capital Action Plan invests primarily in early-stage and mid-stage venture capital funds, and directly in companies across Canada. Venture Capital Action Plan supports the creation of large private sector-led funds of funds and also assists existing high-performing funds in partnership with institutional investors, corporate strategic investors and interested provinces.

As at September 30, 2016, the fair value of venture capital action plan investments stood at \$242,965 (\$137,668 as at March 31, 2016), and their cost was \$252,117 (\$137,905 as at March 31, 2016).

# 11.

## Share Capital

An unlimited number of common shares, having a par value of \$100 each, is authorized. As at September 30, 2016, there were 22,884,000 common shares outstanding (22,884,000 as at March 31, 2016).

### Statutory limitations

As per the BDC Act, the debt-to-equity ratio cannot exceed 12:1. In addition, the paid-in capital, the contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments) must not exceed \$3.0 billion. As at September 30, and March 31, 2016, BDC met both of these statutory limitation requirements.

### Capital adequacy

Treasury Board of Canada Secretariat provides guidelines to BDC on its capital adequacy ratios. BDC must maintain overall capital and allowance for credit losses sufficient to ensure that BDC can withstand unfavourable economic circumstances without requiring additional government funding. During the six-month period ended September 30, 2016, and for the fiscal year ended March 31, 2016, BDC complied with its capital adequacy guidelines.



## 12.

### Segmented Information

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

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

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

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

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

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

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

# Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

	Three months ended September 30, 2016						
	BDC	Financing	Growth & Transition Capital	Venture Capital	Advisory Services	Securitization	Venture Capital Action Plan
Interest income	290,404	268,007	19,943	-	-	2,454	-
Interest expense	20,369	18,290	1,037	-	-	1,042	-
<b>Net interest income</b>	<b>270,035</b>	<b>249,717</b>	<b>18,906</b>	-	-	<b>1,412</b>	-
Net realized gains (losses) on investments	7,098	-	6,032	1,066	-	-	-
Consulting revenue	4,820	-	-	-	4,820	-	-
Fee and other income	12,491	4,035	6,062	2,308	16	91	(21)
Net realized gains (losses) on other financial instruments	26	54	-	(28)	-	-	-
<b>Net revenue (loss)</b>	<b>294,470</b>	<b>253,806</b>	<b>31,000</b>	<b>3,346</b>	<b>4,836</b>	<b>1,503</b>	<b>(21)</b>
Provision for credit losses	(35,219)	(35,219)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	(20,747)	-	(4,764)	(19,730)	-	(8)	3,755
Net unrealized foreign exchange gains (losses) on investments	5,950	-	-	5,900	-	-	50
Net unrealized gains (losses) on other financial instruments	628	641	-	(13)	-	-	-
<b>Income (loss) before operating and administrative expenses</b>	<b>245,082</b>	<b>219,228</b>	<b>26,236</b>	<b>(10,497)</b>	<b>4,836</b>	<b>1,495</b>	<b>3,784</b>
Salaries and benefits	90,302	67,808	6,453	4,543	10,769	617	112
Premises and equipment	9,781	7,963	402	446	934	23	13
Other expenses	31,487	25,085	626	929	4,794	41	12
<b>Operating and administrative expenses</b>	<b>131,570</b>	<b>100,856</b>	<b>7,481</b>	<b>5,918</b>	<b>16,497</b>	<b>681</b>	<b>137</b>
<b>Net income (loss)</b>	<b>113,512</b>	<b>118,372</b>	<b>18,755</b>	<b>(16,415)</b>	<b>(11,661)</b>	<b>814</b>	<b>3,647</b>
<b>Net income (loss) attributable to:</b>							
BDC's shareholder	113,143	118,372	18,471	(16,500)	(11,661)	814	3,647
Non-controlling interests	369	-	284	85	-	-	-
<b>Net income (loss)</b>	<b>113,512</b>	<b>118,372</b>	<b>18,755</b>	<b>(16,415)</b>	<b>(11,661)</b>	<b>814</b>	<b>3,647</b>
<b>Business segment portfolio at end of period</b>	<b>23,335,867</b>	<b>20,785,368</b>	<b>822,988</b>	<b>948,956</b>	-	<b>535,590<sup>(1)</sup></b>	<b>242,965</b>

<sup>(1)</sup> Securitization's portfolio at the end of the period included \$25,515 in loans and \$510,075 in asset-backed securities.

	Three months ended September 30, 2015						
	BDC	Financing	Growth & Transition Capital	Venture Capital	Advisory Services	Securitization	Venture Capital Action Plan
Interest income	272,071	253,980	15,868	-	-	2,223	-
Interest expense	17,767	15,610	1,134	-	-	1,023	-
<b>Net interest income</b>	<b>254,304</b>	<b>238,370</b>	<b>14,734</b>	-	-	<b>1,200</b>	-
Net realized gains (losses) on investments	10,876	-	(562)	11,438	-	-	-
Consulting revenue	3,618	-	-	-	3,618	-	-
Fee and other income	15,150	3,984	8,456	2,515	-	17	178
Net realized gains (losses) on other financial instruments	(210)	44	-	(254)	-	-	-
<b>Net revenue (loss)</b>	<b>283,738</b>	<b>242,398</b>	<b>22,628</b>	<b>13,699</b>	<b>3,618</b>	<b>1,217</b>	<b>178</b>
Provision for credit losses	(33,472)	(33,472)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	(18,790)	-	1,197	(17,481)	-	(11)	(2,495)
Net unrealized foreign exchange gains (losses) on investments	20,801	-	-	20,801	-	-	-
Net unrealized gains (losses) on other financial instruments	2,295	2,394	-	(99)	-	-	-
<b>Income (loss) before operating and administrative expenses</b>	<b>254,572</b>	<b>211,320</b>	<b>23,825</b>	<b>16,920</b>	<b>3,618</b>	<b>1,206</b>	<b>(2,317)</b>
Salaries and benefits	82,128	63,873	6,274	3,626	7,641	518	196
Premises and equipment	9,113	7,615	422	435	602	26	13
Other expenses	22,484	18,016	602	958	2,846	44	18
<b>Operating and administrative expenses</b>	<b>113,725</b>	<b>89,504</b>	<b>7,298</b>	<b>5,019</b>	<b>11,089</b>	<b>588</b>	<b>227</b>
<b>Net income (loss)</b>	<b>140,847</b>	<b>121,816</b>	<b>16,527</b>	<b>11,901</b>	<b>(7,471)</b>	<b>618</b>	<b>(2,544)</b>
<b>Net income (loss) attributable to:</b>							
BDC's shareholder	142,778	121,816	15,822	14,537	(7,471)	618	(2,544)
Non-controlling interests	(1,931)	-	705	(2,636)	-	-	-
<b>Net income (loss)</b>	<b>140,847</b>	<b>121,816</b>	<b>16,527</b>	<b>11,901</b>	<b>(7,471)</b>	<b>618</b>	<b>(2,544)</b>
<b>Business segment portfolio at end of period</b>	<b>21,043,938</b>	<b>18,952,487</b>	<b>670,651</b>	<b>827,540</b>	-	<b>509,708<sup>(1)</sup></b>	<b>83,552</b>

<sup>(1)</sup> Securitization's portfolio at the end of the period included \$10,304 in loans and \$499,404 in asset-backed securities.

# Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Six months ended  
September 30, 2016

	BDC	Financing	Growth & Transition Capital	Venture Capital	Advisory Services	Securitization	Venture Capital Action Plan
Interest income	568,770	526,929	37,002	-	-	4,839	-
Interest expense	39,836	35,785	2,076	-	-	1,975	-
<b>Net interest income</b>	<b>528,934</b>	<b>491,144</b>	<b>34,926</b>	<b>-</b>	<b>-</b>	<b>2,864</b>	<b>-</b>
Net realized gains (losses) on investments	3,164	-	3,831	(667)	-	-	-
Consulting revenue	9,112	-	-	-	9,112	-	-
Fee and other income	25,244	11,573	10,570	2,881	52	113	55
Net realized gains (losses) on other financial instruments	2,063	1,988	-	75	-	-	-
<b>Net revenue (loss)</b>	<b>568,517</b>	<b>504,705</b>	<b>49,327</b>	<b>2,289</b>	<b>9,164</b>	<b>2,977</b>	<b>55</b>
Provision for credit losses	(73,033)	(73,033)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	(38,292)	-	(6,018)	(23,320)	-	(12)	(8,942)
Net unrealized foreign exchange gains (losses) on investments	4,869	-	-	4,842	-	-	27
Net unrealized gains (losses) on other financial instruments	(1,708)	(1,504)	-	(204)	-	-	-
<b>Income (loss) before operating and administrative expenses</b>	<b>460,353</b>	<b>430,168</b>	<b>43,309</b>	<b>(16,393)</b>	<b>9,164</b>	<b>2,965</b>	<b>(8,860)</b>
Salaries and benefits	176,622	132,859	13,314	8,232	20,883	1,117	217
Premises and equipment	19,931	16,244	810	901	1,880	70	26
Other expenses	57,920	46,025	1,329	1,809	8,633	100	24
<b>Operating and administrative expenses</b>	<b>254,473</b>	<b>195,128</b>	<b>15,453</b>	<b>10,942</b>	<b>31,396</b>	<b>1,287</b>	<b>267</b>
<b>Net income (loss)</b>	<b>205,880</b>	<b>235,040</b>	<b>27,856</b>	<b>(27,335)</b>	<b>(22,232)</b>	<b>1,678</b>	<b>(9,127)</b>
<b>Net income (loss) attributable to:</b>							
BDC's shareholder	207,045	235,040	27,553	(25,867)	(22,232)	1,678	(9,127)
Non-controlling interests	(1,165)	-	303	(1,468)	-	-	-
<b>Net income (loss)</b>	<b>205,880</b>	<b>235,040</b>	<b>27,856</b>	<b>(27,335)</b>	<b>(22,232)</b>	<b>1,678</b>	<b>(9,127)</b>
<b>Business segment portfolio at end of period</b>	<b>23,335,867</b>	<b>20,785,368</b>	<b>822,988</b>	<b>948,956</b>	<b>-</b>	<b>535,590<sup>(1)</sup></b>	<b>242,965</b>

<sup>(1)</sup> Securitization's portfolio at the end of the period included \$25,515 in loans and \$510,075 in asset-backed securities.

Six months ended  
September 30, 2015

	BDC	Financing	Growth & Transition Capital	Venture Capital	Advisory Services	Securitization	Venture Capital Action Plan
Interest income	543,272	507,942	31,017	-	-	4,313	-
Interest expense	40,961	36,498	2,449	-	-	2,014	-
<b>Net interest income</b>	<b>502,311</b>	<b>471,444</b>	<b>28,568</b>	<b>-</b>	<b>-</b>	<b>2,299</b>	<b>-</b>
Net realized gains (losses) on investments	13,755	-	(392)	14,147	-	-	-
Consulting revenue	7,172	-	-	-	7,172	-	-
Fee and other income	24,630	7,766	13,856	2,791	-	22	195
Net realized gains (losses) on other financial instruments	189	269	-	(80)	-	-	-
<b>Net revenue (loss)</b>	<b>548,057</b>	<b>479,479</b>	<b>42,032</b>	<b>16,858</b>	<b>7,172</b>	<b>2,321</b>	<b>195</b>
Provision for credit losses	(61,631)	(61,631)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	29,389	-	(5,835)	40,234	-	(18)	(4,992)
Net unrealized foreign exchange gains (losses) on investments	19,350	-	-	19,350	-	-	-
Net unrealized gains (losses) on other financial instruments	3,381	3,376	-	5	-	-	-
<b>Income (loss) before operating and administrative expenses</b>	<b>538,546</b>	<b>421,224</b>	<b>36,197</b>	<b>76,447</b>	<b>7,172</b>	<b>2,303</b>	<b>(4,797)</b>
Salaries and benefits	163,377	127,078	12,298	7,506	15,161	953	381
Premises and equipment	18,603	15,662	857	808	1,192	58	26
Other expenses	44,710	35,316	1,414	1,986	5,845	92	57
<b>Operating and administrative expenses</b>	<b>226,690</b>	<b>178,056</b>	<b>14,569</b>	<b>10,300</b>	<b>22,198</b>	<b>1,103</b>	<b>464</b>
<b>Net income (loss)</b>	<b>311,856</b>	<b>243,168</b>	<b>21,628</b>	<b>66,147</b>	<b>(15,026)</b>	<b>1,200</b>	<b>(5,261)</b>
<b>Net income (loss) attributable to:</b>							
BDC's shareholder	313,135	243,168	20,632	68,422	(15,026)	1,200	(5,261)
Non-controlling interests	(1,279)	-	996	(2,275)	-	-	-
<b>Net income (loss)</b>	<b>311,856</b>	<b>243,168</b>	<b>21,628</b>	<b>66,147</b>	<b>(15,026)</b>	<b>1,200</b>	<b>(5,261)</b>
<b>Business segment portfolio at end of period</b>	<b>21,043,938</b>	<b>18,952,487</b>	<b>670,651</b>	<b>827,540</b>	<b>-</b>	<b>509,708<sup>(1)</sup></b>	<b>83,552</b>

<sup>(1)</sup> Securitization's portfolio at the end of the period included \$10,304 in loans and \$499,404 in asset-backed securities.

## Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



### 13.

#### Guarantees

BDC issues “letters of credit, loan guarantees and portfolio guarantees” (guarantees) to support businesses. Those guarantees represent BDC’s obligation to make payments to third parties if clients are unable to meet their contractual commitments. Collateral requirements for guarantees are consistent with BDC collateral requirements for loans. The fee income earned is calculated on a straight-line basis over the life of the instrument and recognized in fee and other income in the Consolidated Statement of Income. The maximum contractual obligation under the guarantees totalled \$342.5 million as at September 30, 2016 (\$352.4 million as at March 31, 2016) and the existing terms expire within 157 months (within 163 months as at March 31, 2016). However, the actual exposure as at September 30, 2016, was \$27.4 million (\$17.8 million as at March 31, 2016).

These financial guarantees were initially recognized at fair value on the date the guarantees were given. The fair value was considered nil, as all guarantees were agreed to on arm’s-length terms and no initial fee was received. In addition, no receivable for the future expected fees was recognized. Subsequent recognition of a liability will only occur when it becomes more likely than not that a client will not meet its contractual commitments. As at September 30, 2016, and March 31, 2016, there were no liabilities recognized in BDC’s Consolidated Statement of Financial Position related to these guarantees.

### 14.

#### Commitments

##### Loans

Undisbursed amounts of authorized loans totalled \$2,750,742 as at September 30, 2016 (\$963,581 fixed rate; \$1,787,161 floating rate) and are expected to be disbursed within the next 12 months. The weighted average effective interest rate was 4.3% on loan commitments (4.4% as at March 31, 2016). The following tables present undisbursed amounts of authorized loans, by location and industry.

<b>Commitments, by geographic distribution</b>	<b>September 30, 2016</b>	<b>March 31, 2016</b>
Newfoundland and Labrador	92,374	63,612
Prince Edward Island	8,120	544
Nova Scotia	34,245	34,865
New Brunswick	36,332	19,884
Quebec	736,956	545,850
Ontario	754,238	685,774
Manitoba	70,121	55,091
Saskatchewan	50,234	53,655
Alberta	601,457	546,708
British Columbia	360,669	240,861
Yukon	4,370	1,298
Northwest Territories and Nunavut	1,626	2,528
<b>Total</b>	<b>2,750,742</b>	<b>2,250,670</b>

## Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



<b>Commitments, by industry sector</b>	<b>September 30, 2016</b>	<b>March 31, 2016</b>
Manufacturing	716,890	572,285
Construction	344,502	268,499
Service industries	326,746	229,252
Tourism	323,427	278,287
Wholesale and retail trade	319,076	291,608
Resources	317,982	258,051
Transportation and storage	150,379	172,942
Commercial properties	120,722	70,284
Other	131,018	109,462
<b>Total</b>	<b>2,750,742</b>	<b>2,250,670</b>

### Subordinate financing

Undisbursed amounts of authorized investments totalled \$78,658 at September 30, 2016 (\$37,402 fixed rate; \$41,256 floating rate) and are expected to be disbursed within the next 12 months. The weighted average effective interest rate (excluding non-interest returns) was 9.8% on investment commitments (10.8% at March 31, 2016). The following tables present undisbursed amounts of authorized investments, by location and industry.

<b>Commitments, by geographic distribution</b>	<b>September 30, 2016</b>	<b>March 31, 2016</b>
Newfoundland and Labrador	209	1,209
Nova Scotia	2,000	750
New Brunswick	1,800	-
Quebec	15,858	15,131
Ontario	32,775	35,571
Saskatchewan	1,575	-
Alberta	9,141	16,200
British Columbia	14,750	3,455
Yukon	550	-
<b>Total</b>	<b>78,658</b>	<b>72,316</b>

<b>Commitments, by industry sector</b>	<b>September 30, 2016</b>	<b>March 31, 2016</b>
Service industries	39,945	9,720
Manufacturing	19,763	28,796
Information industries	7,063	8,425
Wholesale and retail trade	4,100	2,675
Construction	2,500	1,650
Tourism	2,096	3,900
Educational services	1,800	-
Resources	1,091	14,750
Transportation and storage	300	2,400
<b>Total</b>	<b>78,658</b>	<b>72,316</b>

## Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



### Venture capital

Undisbursed amounts of authorized venture capital investments totalled \$332,466 as at September 30, 2016, and were related to the following industry sectors.

<b>Commitments, by industry sector</b>	<b>September 30, 2016</b>	<b>March 31, 2016</b>
Medical and health	10,523	4,000
Biotechnology and pharmacology	5,276	16,030
Electronics	3,510	4,811
Information technology	1,556	1,914
Industrial	625	-
Total direct investments	21,490	26,755
External funds	310,976	333,314
<b>Venture capital investments</b>	<b>332,466</b>	<b>360,069</b>

### Venture capital action plan

Undisbursed amounts of authorized venture capital action plan investments totalled \$138,042 as at September 30, 2016 (\$252,254 as at March 31, 2016).

### Asset-backed securities

Undisbursed amounts of authorized asset-backed securities totalled \$435,000 as at September 30, 2016 (\$297,000 as at March 31, 2016).

### Leases

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

## 15.

### Related Party Transactions

As at September 30, 2016, BDC had \$18,143.0 million outstanding in short-term notes and \$24.1 million outstanding in long-term notes (excluding accrued interest) with Her Majesty the Queen in Right of Canada acting through the Minister of Finance (\$16,844.0 million in short-term notes and \$98.1 million in long-term notes as at March 31, 2016).

Accrued interest on borrowings included \$3.1 million payable to the Minister of Finance as at September 30, 2016 (\$3.2 million as at March 31, 2016).

BDC recorded \$20.9 million in interest expense, related to the borrowings from the Minister of Finance, for the second quarter and \$40.9 million for the six months ended September 30, 2016. Last year's comparative figures for the same periods were \$17.8 million and \$41.2 million, respectively.

In addition, no borrowings with the Minister of Finance were repurchased in the first six months of fiscal 2017 and fiscal 2016.

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.

## Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



# 16.

## Comparative Figures

Certain comparative figures have been reclassified to conform to the current quarter's presentation.





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