



2021

Financial Report

Second Quarter

September 30, 2020



Executive Summary

Canadian economic outlook

The summer months saw a strong rebound in economic activity that reversed some of the damage caused by pandemic lockdowns. Easing of restrictions across Canada allowed the economy to return to 95% of its pre-crisis level by August. While the lockdowns produced an 18% GDP decline in March and April, and 3 million job losses, growth is likely to exceed 40% (annualized) in the third quarter, with 2.3 million jobs recovered between May and September.

However, momentum is expected to slow over the next quarters as a second wave of the pandemic takes hold and permanent job losses increase. Partial lockdowns will overwhelmingly hit sectors already hurt by the crisis, such as hospitality and recreation, which are unlikely to return to their previous level before 2022 at the earliest.

Elsewhere, the oil and gas sector continues to struggle. The International Energy Agency (IEA) estimates global demand for oil will not fully recover before at least 2022. The price of the benchmark Western Canadian Select has gained ground since late April but remained at around US\$30 a barrel since the start of the summer. Canadian oil production initially declined by as much as 20% during the lockdowns before trending up along with crude prices. Production levels should return to 2019 levels next year, but high global inventories will likely prevent prices from gaining much ground.

Retail trade and housing construction are two sectors that have shown strength in recent months, with both displaying V-shaped recoveries. Retail sales even set new records in June and July, thanks to pent-up demand and a sharp increase in disposable income due to government support programs. Housing starts have also been resilient. Aside from the crisis month of April, the sector has largely retained its vigour of recent years. After nine months, housing starts are holding at the same pace as in 2019, surpassing an annualized rate of 200,000.

In the U.S., growth also surged in the third quarter, with GDP increasing an annualized 33.1%. However, the

labour market remained somewhat weaker than in Canada, as only 52% of jobs had been recovered as of September. This is in part due to more frequent flareups in COVID-19 infections over the summer months, which forced many states to reverse the reopening of their economies.

There is still no set date for the reopening of the Canada–U.S. border. International trade remains depressed, with exports down 10% in September compared to 2019 levels. The rebound in energy, aircraft and industrial machinery exports has been muted so far. As for services exports, the damage has been even more acute. They were down 23% with almost no ground recovered since the worst of the spring shutdowns.

Both the U.S Federal Reserve and the Bank of Canada have reduced their policy interest rates to their effective lower bounds of 0.25%. Both central banks have ruled out negative interest rates for the time being. Massive quantitative easing programs will remain in place for the foreseeable future.

After stabilizing at around \$0.74 in the early summer, the Canadian dollar has since appreciated to USD\$0.76, reflecting a depreciation of the U.S. dollar against the loonie and other currencies.

The federal government's deficit, last estimated at \$343 billion or 16% of GDP, is likely to be revised upwards as new spending pledges have since been made.

In summary, we project a 5.7% decline in GDP in calendar 2020, before a return to growth of 4% in 2021. Our baseline scenario is for the Canadian economy to return to its 2019 GDP level sometime in mid-2022—although a harsh second wave of COVID infections may delay this to as late as 2023.

On the labour market front, the unemployment rate is expected to fall to 8% by year end. Given the weakness in many service sectors, we expect employment levels to return to their pre-crisis levels only by the second half of 2022.



Financial highlights and quarterly achievements

In response to this economic crisis, and with the support of our shareholder, BDC launched a series of special measures to respond to the immediate needs of entrepreneurs. They include the Business Credit Availability Program (BCAP), which is delivered in collaboration with private financial institutions, and measures delivered directly by BDC. These measures are combined under the newly created business segment, the Credit Availability Program (CAP), to distinguish them from BDC core activities. Our core business lines include Financing, Advisory Services, Growth & Transition Capital (GTC), Venture Capital (VC), Venture Capital Incentive Programs (VCIP) and Cleantech Practice.

For the second quarter and six-month period of fiscal 2021, BDC reported a net income of \$132.4 million and a net loss of \$6.6 million, respectively, consisting of net income of \$197.5 million for the core business and a net loss of \$65.1 million for CAP for the three-month period, and a net income of \$245.1 million for the core business and a net loss of \$251.7 million for CAP for the six-month period. In comparison, BDC reported a net income of \$294.8 million and \$517.7 million for the same periods last year consisting of only the core business. The lower results are mainly attributable to higher provision for expected credit losses in the Loans portfolio, reflecting the economic impact of the pandemic.

Core activities

Financing clients accepted a total of \$1.3 billion in loans for the three-month period and \$2.2 billion for the six-month period of fiscal 2021 compared to \$2.1 billion and \$4.3 billion, respectively, for the same periods last year. The decrease is partially explained by the shift in volume from our core activities to the new CAP segment as entrepreneurs' financing needs were met mostly through CAP. Financing's loans portfolio¹, excluding CAP loans, stood at \$27.4 billion as at September 30, 2020.

Net contracts signed for Advisory Services decreased in the second quarter of fiscal 2021 to \$1.8 million and \$3.8 million for the six-month period, compared to \$7.9 million and \$15.7 million, respectively, for the same

periods last year. Revenues also decreased, totalling \$4.2 million in the second quarter and \$8.3 million for the six-month period ended September 30, 2020, 35.8% and 40.4% lower compared to the same periods last year.

GTC clients accepted \$30.5 million in financing during the second quarter and \$91.7 million for the six-month period compared to \$217.1 million and \$319.4 million, respectively, for the same periods last year. As expected, there was lower demand for growth equity and business transition financing as entrepreneurs focused on rebuilding their working capital, and volumes also shifted to CAP.

VC authorizations for the second quarter and the six-month period of fiscal 2021 totalled \$32.2 million and \$105.0 million, respectively. In comparison, for the same periods last year, the authorized investments totalled \$114.2 million and \$142.8 million, respectively. The decrease in authorizations for the second quarter was driven by both direct and indirect investments, which represented \$18.1 million and \$14.1 million for the quarter compared to \$62.2 million and \$52.1 million for the equivalent periods last year. The decrease in the first six-months of the fiscal year was mainly driven by indirect investments, which represented \$24.7 million for the six-month period compared to \$68.2 million for the same period last fiscal.

VCIP authorized \$7.5 million in the second quarter and for the six-month period of fiscal 2021, compared to \$25.0 million and \$116.1 million, respectively, for the same periods last year, in authorizations under the Venture Capital Catalyst Initiative (VCCI). VCCI commitments to date total \$370.5 million out a total envelope of \$371.4 million, which is expected to be fully committed in fiscal 2021.

Clients of the Cleantech Practice accepted a total of \$26.5 million in subordinate financing investments for the second quarter and \$73.8 million for the six-month period of fiscal 2021 compared to \$3.0 million and \$22.7 million for the equivalent periods last year.

BDC Capital launched a new intellectual property (IP) development financing envelope of \$160 million to support IP companies in Canada. This new envelope, which is the first of its kind in Canada, will provide customized, patient

¹ Net of allowance for expected credit losses



capital in the form of subordinate financing debt, convertible debt and equity to accelerate commercialization. These will be for scaling companies in knowledge-based industries with rich IP portfolios and at least \$1.0 million in annual revenue.

Credit Availability Program (CAP)

The new CAP segment combines a wide range of initiatives offered in response to the COVID-19 crisis. Total financing acceptances and investment authorizations for the CAP initiatives reached \$0.8 billion for the second quarter and \$3.0 billion for the six-month period of fiscal 2021. CAP's loan portfolio² stood at \$2.3 billion as at September 30, 2020. Peak volumes were reached in the first half of the six-month period as the economy recovered and as companies continued to access other government liquidity support. CAP initiatives include programs delivered in collaboration with private sector lenders and measures delivered directly by BDC. They include the following:

Co-Lending Program for SMEs

Through this initiative, the commercial support, developed by BDC in partnership with financial institutions, is intended to help Canadian businesses impacted by COVID-19 fund their operational cash flow needs. Eligible businesses may obtain incremental credit amounts up to \$12.5 million, 80% of which would be provided by BDC, with the remaining 20% from their financial institution.

Mid-Market Financing Program

For medium-sized businesses, under this program, BDC is making additional credit available to complement businesses' existing debt facilities, working closely with their primary lenders. These commercial loans ranging between \$12.5 million and \$60 million will take the form of a junior loan, of which 90% is provided by BDC and 10% by the entrepreneur's existing senior lender or syndicate.

Direct lending

For online loan requests and working capital loans of up to \$2.0 million, we are offering flexible financing terms for qualifying businesses.

Venture Capital

To support Canada's venture capital market, we have launched a Bridge Financing Program. This is a matching convertible note program to increase VC funding to companies that have suffered significant setbacks related to the COVID-19 pandemic.

The Business Credit Availability Program (BCAP), which includes the Co-Lending Program and the Mid-Market Financing Program, has been extended until June 2021 to continue to support access to capital for Canadian businesses of all sizes in all sectors and regions. BDC, in collaboration with other financial institutions, has continued to work to ensure credit remains available to entrepreneurs.

Small Business Week

Between October 18 to 25, BDC Small Business Week was celebrated across the country with many virtual events organized by BDC and partners. Under the theme Forging the way forward, close to 10,000 business owners gathered online to learn, network and celebrate the people building businesses. A BDC study, issued for the occasion, reports that Canadian entrepreneurs are shifting priorities and taking advantage of new trends brought on by the COVID-19 pandemic. Top solutions include putting finances in order, given the intensity of the economic contraction, and taking advantage of technology to stay competitive. The pandemic has also changed Canadians' habits such as the willingness to pay more for local products or purchase more online.

² Net of allowance for expected credit losses



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

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



Table of Contents

MANAGEMENT DISCUSSION AND ANALYSIS	7
CONTEXT OF THE QUARTERLY FINANCIAL REPORT.....	7
RISK MANAGEMENT.....	7
ANALYSIS OF FINANCIAL RESULTS.....	8
CONSOLIDATED FINANCIAL STATEMENTS	18

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

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



Management Discussion and Analysis

Context of the Quarterly Financial Report

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

Risk Management

In order to fulfill its mandate while ensuring sustainability, BDC must take and manage risk. BDC's approach to risk management is based on establishing a risk governance structure, including organizational design, policies, processes and controls, to effectively manage risk in line with its risk appetite. This structure enables the establishment of a comprehensive risk management framework for risk identification, assessment and measurement, risk analytics, reporting, and monitoring. In addition, this framework is designed to ensure that risk is considered in all business activities and that risk management is an integral part of day-to-day decision-making, as well as the annual corporate planning process.

The primary means through which the risk management function reports risk is through its quarterly Integrated Risk Management (IRM) report to senior management and the Board of Directors. This report provides a comprehensive quantitative and qualitative assessment of performance against the Risk Appetite Statement, profiles BDC's major risk categories, identifies significant existing and emerging risks, and provides in-depth portfolio monitoring.

The COVID-19 pandemic has negatively impacted the economic environment, creating economic uncertainty and hardship for numerous SMEs and Canadian Entrepreneurs. Given BDC's mandate and role as a development bank, BDC has put in place a number of programs to support companies during this difficult time and has seen a significant increase in demand for BDC's financing and support programs. These programs, some of which BDC implemented at the request of the Government, deploy additional liquidity to support Canadian businesses and entrepreneurs that have been negatively impacted by the COVID-19 pandemic.



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, 2020, compared to the corresponding periods of the prior fiscal year.

BDC currently reports on seven business segments: Financing, Advisory Services, Growth & Transition Capital (GTC), Venture Capital (VC), Venture Capital Incentive Programs (VCIP), Cleantech Practice and the Credit Availability Program (CAP), a new segment created this fiscal year to report COVID-19 related initiatives.

All amounts are in Canadian dollars, unless otherwise specified, and are based on unaudited condensed quarterly Consolidated Financial Statements prepared in compliance with the Standard on Quarterly Financial Reports for Crown Corporations, as required by the *Financial Administration Act* and issued by the Treasury Board of Canada Secretariat.

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

Consolidated net income (loss)

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2021	F2020	F2021	F2020
Financing	208.7	153.9	129.7	283.3
Advisory Services	(11.7)	(11.7)	(19.0)	(22.6)
Growth & Transition Capital	3.8	24.5	15.0	34.6
Venture Capital	21.3	115.1	90.4	195.7
Venture Capital Incentive Programs	(20.1)	8.7	27.1	20.0
Cleantech Practice	(4.5)	4.3	1.9	6.7
Core net income	197.5	294.8	245.1	517.7
Credit Availability Program	(65.1)	-	(251.7)	-
Net income (loss)	132.4	294.8	(6.6)	517.7
Net income (loss) attributable to:				
BDC's shareholder	131.5	302.6	(9.5)	511.4
Non-controlling interests	0.9	(7.8)	2.9	6.3
Net income (loss)	132.4	294.8	(6.6)	517.7

Three and six months ended September 30

For the quarter ended September 30, 2020, BDC's consolidated net income was \$132.4 million, comprising \$131.5 million of net income attributable to BDC's shareholder and a net income of \$0.9 million attributable to non-controlling interests. For the equivalent period last year, the consolidated net income of \$294.8 million included a net income of \$302.6 million attributable to BDC's shareholder and a net loss of \$7.8 million attributable to non-controlling interests. BDC's consolidated Core net income was \$197.5 million compared to \$294.8 million reported for the same period last year.



For the six months ended September 30, 2020, BDC recorded a consolidated net loss of \$6.6 million compared to a net income of \$517.7 million recorded for the same period last year. The decrease in Core net income was mostly attributable to higher provision for expected credit losses in Financing. The results for CAP were also negatively impacted by higher provision for expected credit losses and operating and administrative expenses representing recharges from our core business to support CAP activities.

Consolidated comprehensive income (loss)

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2021	F2020	F2021	F2020
Net income (loss)	132.4	294.8	(6.6)	517.7
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on FVOCI assets	(2.5)	(1.5)	6.7	0.1
Net change in unrealized gains (losses) on cash flow hedges	(0.4)	(0.3)	(0.6)	(0.6)
Total items that may be reclassified subsequently to net income	(2.9)	(1.8)	6.1	(0.5)
Items that will not be reclassified to net income				
Remeasurements of net defined benefit asset or liability	(11.0)	(9.8)	(412.9)	(102.5)
Other comprehensive income (loss)	(13.9)	(11.6)	(406.8)	(103.0)
Total comprehensive income (loss)	118.5	283.2	(413.4)	414.7
Total comprehensive income (loss) attributable to:				
BDC's shareholder	117.6	291.0	(416.3)	408.4
Non-controlling interests	0.9	(7.8)	2.9	6.3
Total comprehensive income (loss)	118.5	283.2	(413.4)	414.7

Three and six months ended September 30

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

BDC recorded other comprehensive losses of \$13.9 million and \$406.8 million, respectively, for the second quarter and the six-month period ended September 30, 2020, compared to other comprehensive losses of \$11.6 million and \$103.0 million for the same periods last year. The decrease in OCI for the first six-month period of fiscal 2021 was mainly attributable to a remeasurement loss of \$412.9 million on the net defined benefit asset or liability. This loss was due to lower than forecasted discount rates used to value the net defined benefit liability, offset by higher returns on pension plan assets.



Financing results

	Three months ended September 30		Six months ended September 30	
	F2021	F2020	F2021	F2020
(\$ in millions)				
Net interest income	339.0	327.6	673.0	643.6
Fee and other income	5.9	5.9	11.4	11.4
Provision for expected credit losses	(48.6)	(52.7)	(380.3)	(129.2)
Net change in unrealized appreciation (depreciation) of investments	(3.9)	2.1	(4.5)	0.7
Net foreign exchange gains (losses)	(0.3)	(0.8)	(0.7)	(2.4)
Net gains (losses) on other financial instruments	0.1	0.3	0.4	0.1
Income before operating and administrative expenses	292.2	282.4	299.3	524.2
Operating and administrative expenses	83.5	128.5	169.6	240.9
Net income from Financing	208.7	153.9	129.7	283.3

	Three months ended September 30		Six months ended September 30	
	F2021	F2020	F2021	F2020
As % of average portfolio				
Net interest income	4.5	4.6	4.5	4.6
Fee and other income	0.1	0.1	0.1	0.1
Provision for expected credit losses	(0.6)	(0.7)	(2.6)	(0.9)
Net change in unrealized appreciation (depreciation) of investments	(0.1)	-	-	-
Income before operating and administrative expenses	3.9	4.0	2.0	3.8
Operating and administrative expenses	1.1	1.8	1.1	1.7
Net income from Financing	2.8	2.2	0.9	2.1

Three and six months ended September 30

Net income from Financing was \$208.7 million for the second quarter of fiscal 2021 and \$129.7 million for the six-month period ended September 30, 2020, compared to a net income of \$153.9 million and \$283.3 million, respectively, for the same periods last year. The increase in net income from Financing for the three-month period ended September 30, 2020 resulted mainly from higher net interest income and lower operating and administrative expenses. The decrease in profitability in the first half of fiscal 2021 was mainly due to higher provision for expected credit losses, as a result of the economic downturn stemming from the spread of the coronavirus. This was partially offset by higher net interest income from portfolio growth, and lower operating and administrative expenses.



Operating and administrative expenses for the quarter and six months ended September 30, 2020 were \$83.5 million and \$169.6 million, lower than the \$128.5 million and \$240.9 million, respectively, in the corresponding periods last year. The decrease in operating and administrative expenses is mainly due to expenses recharged to the CAP segment as financing activities shifted to support the CAP initiatives.

Advisory Services results

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2021	F2020	F2021	F2020
Revenue	4.2	6.6	8.3	13.9
Delivery expenses ⁽¹⁾	2.5	4.2	5.0	8.5
Gross operating margin	1.7	2.4	3.3	5.4
Operating and administrative expenses	13.4	14.1	22.3	28.0
Net loss from Advisory Services	(11.7)	(11.7)	(19.0)	(22.6)

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

Three and six months ended September 30

A net loss of \$11.7 million was recorded for the second quarter of fiscal 2021, compared to a \$11.7 million net loss recorded for the same quarter last year. Cumulative net loss for the six-month period ended September 30, 2020 was \$19.0 million, compared to a net loss of \$22.6 million for the same period last year. The \$3.6 million favourable variance for the six-month period ended September 30, 2020 is mainly driven by lower operating and administrative expenses due to the temporary redeployment of Advisory Services employees to respond to a high volume of financing requests in CAP during the first half of the six-month period.

As expected, results from Advisory Services were impacted by the economic downturn as business development halted during the first half of the six-month period due to the pandemic and entrepreneurs postponing their consulting mandates. Advisory Services adapted its offering and launched new advisory service solutions, free consultation and online advice to help businesses plan for recovery. Revenue amounted to \$8.3 million for the first half of fiscal 2021, \$5.6 million lower than the \$13.9 million recorded for the same period last year. Gross operating margin, at \$3.3 million for the six months ended September 30, 2020, was lower than the \$5.4 million recorded for the same period last year, driven mainly by lower revenues.

Operating and administrative expenses of \$13.4 million for the three-month period were slightly lower than the \$14.1 million recorded for the corresponding period of fiscal 2020. Operating and administrative expenses of \$22.3 million for the six-month period ended September 30, 2020, were lower than the \$28.0 million recorded for the corresponding period of fiscal 2020 mainly due to expenses recharged to the CAP segment as employees were redeployed to support CAP activities.



Growth & Transition Capital results

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2021	F2020	F2021	F2020
Net revenue on investments	37.7	38.9	59.0	65.4
Net change in unrealized appreciation (depreciation) of investments	(23.6)	(2.2)	(25.0)	(5.9)
Net foreign exchange gains (losses)	(0.4)	0.2	(1.2)	(0.1)
Income before operating and administrative expenses	13.7	36.9	32.8	59.4
Operating and administrative expenses	9.9	12.4	17.8	24.8
Net income from Growth & Transition Capital	3.8	24.5	15.0	34.6
Net income (loss) attributable to:				
BDC's shareholder	4.4	22.9	15.7	33.0
Non-controlling interests	(0.6)	1.6	(0.7)	1.6
Net income from Growth & Transition Capital	3.8	24.5	15.0	34.6

As % of average portfolio	Three months ended September 30		Six months ended September 30	
	F2021	F2020	F2021	F2020
Net revenue on investments	12.1	13.0	9.6	11.1
Net change in unrealized appreciation (depreciation) of investments	(7.6)	(0.7)	(4.1)	(1.0)
Net foreign exchange gains (losses)	(0.1)	0.1	(0.2)	-
Income before operating and administrative expenses	4.4	12.4	5.3	10.1
Operating and administrative expenses	3.2	4.1	2.9	4.2
Net income from Growth & Transition Capital	1.2	8.3	2.4	5.9
Net income (loss) attributable to:				
BDC's shareholder	1.4	7.8	2.5	5.6
Non-controlling interests	(0.2)	0.5	(0.1)	0.3
Net income from Growth & Transition Capital	1.2	8.3	2.4	5.9

Three and six months ended September 30

Net income reached \$3.8 million for the second quarter of fiscal 2021 compared to net income of \$24.5 million recorded for the same period last year. For the six months ended September 30, 2020, GTC recorded net income of \$15.0 million, compared to \$34.6 million for the same period of fiscal 2020. Results for the three and six-month period ended September 30, 2020, were negatively affected by higher net change in unrealized depreciation of investments.



GTC recorded a net change in unrealized depreciation on investments of \$23.6 million in the second quarter and \$25.0 million for the first half of fiscal 2021, compared to a net change in unrealized depreciation on investments of \$2.2 million and \$5.9 million, respectively, during the same periods last year, as detailed below. The \$25.0 million net change in unrealized depreciation on investments for the first six-month period of fiscal 2021 was mainly explained by the net fair value depreciation of \$31.1 million offset by the \$6.1 million reversal of net fair value depreciation due to realized income and write-offs.

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2021	F2020	F2021	F2020
Net fair value appreciation (depreciation)	(23.2)	(5.2)	(31.1)	(11.6)
Reversal of net fair value depreciation (appreciation) due to realized income and write-offs	(0.4)	3.0	6.1	5.7
Net change in unrealized appreciation (depreciation) of investments	(23.6)	(2.2)	(25.0)	(5.9)

Operating and administrative expenses amounted to \$17.8 million for the six-month period ended September 30, 2020, lower than the \$24.8 million recorded last year. The decrease was mainly due to expenses recharged to the CAP segment as employees were redeployed to support CAP activities.

Venture Capital results

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2021	F2020	F2021	F2020
Net revenue (loss) on investments	(20.0)	55.4	(3.5)	224.5
Net change in unrealized appreciation (depreciation) of investments	60.8	60.0	141.7	(7.1)
Net foreign exchange gains (losses)	(11.8)	7.8	(32.4)	(6.2)
Income before operating and administrative expenses	29.0	123.2	105.8	211.2
Operating and administrative expenses	7.7	8.1	15.4	15.5
Net income from Venture Capital	21.3	115.1	90.4	195.7
Net income (loss) attributable to:				
BDC's shareholder	19.8	124.5	86.8	191.0
Non-controlling interests	1.5	(9.4)	3.6	4.7
Net income from Venture Capital	21.3	115.1	90.4	195.7



Three and six months ended September 30

During the second quarter of fiscal 2021, VC recorded a net income of \$21.3 million, compared to net income of \$115.1 million for the same period last year. For the six months ended September 30, 2020, VC's net income was \$90.4 million, compared to \$195.7 million for the same period last year. Results for the second quarter and first half of fiscal 2021 were unfavourably impacted by higher net loss on investments and higher net foreign exchange losses, offset by higher net change in unrealized appreciation of investments.

VC recorded a net change in unrealized appreciation of investments of \$60.8 million for the second quarter and of \$141.7 million for the six months ended September 30, 2020, compared to a net change in unrealized appreciation of \$60.0 million and depreciation of \$7.1 million, respectively, for the same periods last year, as detailed below.

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2021	F2020	F2021	F2020
Net fair value appreciation (depreciation)	34.3	93.2	118.4	190.1
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	26.5	(33.2)	23.3	(197.2)
Net change in unrealized appreciation (depreciation) of investments	60.8	60.0	141.7	(7.1)

In the second quarter and six-month period of fiscal 2021, net foreign exchange losses on investments of \$11.8 million and \$32.4 million were recorded due to foreign exchange fluctuations in the portfolio in U.S. dollars, compared to net foreign exchange gains on investments of \$7.8 million and losses of \$6.2 million recorded for the corresponding periods last year.

On a year-to-date basis, operating and administrative expenses were \$15.4 million for the first half of fiscal 2021, similar to the \$15.5 million recorded for the corresponding period last fiscal.

Venture Capital Incentive Programs results

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2021	F2020	F2021	F2020
Net revenue on investments	0.1	0.7	0.2	0.7
Net change in unrealized appreciation (depreciation) of investments	(19.5)	8.6	28.2	20.5
Net foreign exchange gains (losses)	(0.3)	0.1	(0.7)	-
Income (loss) before operating and administrative expenses	(19.7)	9.4	27.7	21.2
Operating and administrative expenses	0.4	0.7	0.6	1.2
Net income (loss) from Venture Capital Incentive Programs	(20.1)	8.7	27.1	20.0



Three and six months ended September 30

During the second quarter of fiscal 2021, VCIP recorded a net loss of \$20.1 million, compared to a net income of \$8.7 million for the same period last year. For the six-month period ended September 30, 2020, VCIP recorded net income of \$27.1 million, compared to net income of \$20.0 million for the same period last year.

The decrease in the second quarter of fiscal 2021 was mainly due to higher net fair value depreciation on investments compared to the equivalent period last fiscal. However, results for first half of fiscal 2021 remain strong, mainly due to higher net fair value appreciation on investments compared to the same period last year.

Cleantech Practice results

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2021	F2020	F2021	F2020
Net revenue on investments	2.2	2.5	4.1	3.7
Net change in unrealized appreciation (depreciation) of investments	(5.8)	2.6	(0.2)	4.6
Net foreign exchange gains (losses)	-	-	(0.2)	0.2
Income (loss) before operating and administrative expenses	(3.6)	5.1	3.7	8.5
Operating and administrative expenses	0.9	0.8	1.8	1.8
Net income (loss) from Cleantech Practice	(4.5)	4.3	1.9	6.7

Three and six months ended September 30

Cleantech Practice reported a net loss of \$4.5 million and a net income of \$1.9 million for the three-month and six-month periods ended September 30, 2020, compared to a net income of \$4.3 million and \$6.7 million, respectively, for the same periods last year. Results for the second quarter and first half of fiscal 2021 were unfavourably impacted by higher net change in unrealized depreciation on investments.



Credit Availability Program results

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2021	F2020	F2021	F2020
Net interest income	16.0	-	20.7	-
Fee and other income	4.1	-	4.8	-
Provision for expected credit losses	(46.4)	-	(185.8)	-
Net foreign exchange gains (losses)	(0.1)	-	(0.2)	-
Loss before operating and administrative expenses	(26.4)	-	(160.5)	-
Operating and administrative expenses	38.7	-	91.2	-
Net loss from Credit Availability Program	(65.1)	-	(251.7)	-

Three and six months ended September 30

CAP recorded a net loss of \$65.1 million and \$251.7 million, respectively, for the three-month and six-month periods ended September 30, 2020, mainly driven by the provision for expected credit losses on loans of \$46.4 million and \$185.8 million, respectively, reflecting current economic uncertainty due to the pandemic. The operating and administrative expenses of \$38.7 million and \$91.2 million for the three-month and six-month periods, are explained by higher costs incurred in the start-up phase of this new portfolio, resulting mainly from employees' efforts to deploy CAP initiatives and handle the excessive demand. The level of recharges is expected to decrease over time as the portfolio stabilizes.

Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows

As at September 30, 2020, total BDC assets amounted to \$35.8 billion, an increase of \$2.7 billion from March 31, 2020, largely due to the \$2.5 billion increase in our net loans portfolio.

At \$29.8 billion, the loans portfolio represented BDC's largest asset (gross portfolio of \$31.5 billion less a \$1.7 billion allowance for expected credit losses). The gross loans portfolio grew by 10.5% over the six months after March 31, 2020, reflecting an increase in the level of activity of CAP, which accounts for \$2.3 billion in additional loans.

BDC's investment portfolios, which include the GTC and VC portfolios, stood at \$3.3 billion, compared to \$3.0 billion as at March 31, 2020. The increase of \$0.3 billion was mainly driven by net disbursements and net fair value appreciation for VC investments. The asset-backed securities portfolio stood at \$715.7 million, compared to \$777.8 million as at March 31, 2020.

As at September 30, 2020, the fair value of derivative assets was \$6.2 million and the fair value of derivative liabilities was \$6.8 million. Net derivative fair value increased by \$3.2 million since March 31, 2020.



As at September 30, 2020, BDC recorded a net defined benefit liability of \$625.0 million for the registered pension plan and the other plans. This represented an increase of \$378.5 million, compared to the total net defined benefit liability as at March 31, 2020, primarily as a result of remeasurement losses recorded in the first six months of fiscal 2021. Refer to page 10 of this report for further information on remeasurements of net defined benefit asset or liability.

BDC holds cash and cash equivalents in accordance with its Treasury Risk Policy. BDC liquidities, which ensure funds are available to meet its cash outflows, totalled \$1.7 billion as at September 30, 2020, compared to \$1.8 billion as at March 31, 2020. BDC's Treasury Risk Policy was amended on May 13, 2020 to raise the maximum liquidity level from 30 days to 90 days to cover for the higher operational and funding risks and ensure the level of liquidity is sufficient in response to major disruptions during the COVID-19 pandemic.

For the six-month period ended September 30, 2020, operating activities used \$2.5 billion, mainly to support the growth of the loans portfolio. Cash flows used by investing activities amounted to \$0.2 billion, reflecting net disbursements for GTC and VC investments and asset backed securities. Financing activities provided \$2.6 billion in cash flow, mainly as a result of \$7.5 billion in common shares issuance and \$0.5 billion of long-term notes issuance, offset by \$5.3 billion net repayments on short-term loans.

As at September 30, 2020, BDC funded its portfolios and liquidities with borrowings of \$18.7 billion and total equity of \$16.0 billion. Borrowings comprised \$14.0 billion in short-term notes and \$4.7 billion in long-term notes.

Capital adequacy

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

On May 5, 2020, the Board of Directors' approved a new capital management framework to ensure effective capital management in alignment with regulatory guidelines (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. The new capital management framework incorporates changes in both the available capital definition as well as in the required capital quantification. The new framework is effective April 1, 2020.

Available capital

Modifications arising from the new Capital Management framework primarily relate to the collective allowance addback to capital as prescribed in OSFI's Capital Adequacy Requirements under the Standardized Approach.

Required capital

Modifications arising from the new Capital Management framework primarily relate to the removal of capital reserves (Stress testing and VC), the alignment to industry standards for solvency rating, adjustment of the operating range definition and the update of economic capital models validated by third parties.

BDC's internal capital ratio, excluding VCIP, Cleantech and CAP, stood at 107% as at September 30, 2020, below its target capital ratio of 110%, compared to 112% as at March 31, 2020. The decrease in our internal capital ratio was primarily attributable to the volatility in the market rates used to measure our net defined benefit liability resulting in an other comprehensive loss of \$412.9 million for the six-month period and an increase in provision for expected credit losses that reduced available capital. Despite this unfavourable impact, our regulatory capital ratio is well above the minimum regulatory capital requirements and BDC is well positioned to continue to support Canadians SMEs.



Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)

Management’s Responsibility for Financial Information	19
Consolidated Statement of Financial Position	20
Consolidated Statement of Income (loss).....	21
Consolidated Statement of Comprehensive Income (Loss)	22
Consolidated Statement of Changes in Equity	23
Consolidated Statement of Cash Flows.....	25
Notes to the Consolidated Financial Statements.....	26
Note 1 BDC general description	26
Note 2 Basis of preparation	26
Note 3 Significant accounting policies	27
Note 4 Significant accounting judgements, estimates and assumptions.....	27
Note 5 Fair value of financial instruments.....	28
Note 6 Loans.....	30
Note 7 Asset-backed securities	32
Note 8 Subordinate financing investments	33
Note 9 Venture capital investments	34
Note 10 Share capital	34
Note 11 Segmented information	36
Note 12 Guarantees.....	42
Note 13 Related party transactions	42
Note 14 Uncertainties related to COVID-19.....	42



Management's Responsibility for Financial Information

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

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

Michael Denham
President and Chief Executive Officer

Stefano Lucarelli, CPA, CA
Chief Financial Officer

Montreal, Canada
November 18, 2020



Consolidated Statement of Financial Position

(unaudited)

(in thousands of Canadian dollars)	Notes	September 30, 2020	March 31, 2020
ASSETS			
Cash and cash equivalents		1,710,031	1,821,397
Derivative assets		6,192	12,356
Loans			
Loans, gross carrying amount	6	31,468,606	28,472,261
Less: allowance for expected credit losses	6	(1,684,300)	(1,199,173)
Loans, net of allowance for expected credit losses		29,784,306	27,273,088
Investments			
Asset-backed securities	7	715,711	777,838
Subordinate financing investments	8	1,300,000	1,240,588
Venture capital investments	9	2,038,607	1,721,136
Total investments		4,054,318	3,739,562
Property and equipment		68,766	67,704
Intangible assets		41,870	41,525
Right-of-use-assets		124,535	127,523
Net defined benefit asset		-	41,781
Other assets		33,153	28,422
Total assets		35,823,171	33,153,358
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities		208,388	158,292
Derivative liabilities		6,802	16,125
Borrowings			
Short-term notes		14,014,630	19,362,224
Long-term notes		4,701,806	4,207,066
Total borrowings		18,716,436	23,569,290
Lease Liabilities			
Short-term lease liabilities		12,728	12,063
Long-term lease liabilities		123,935	125,138
Total lease liabilities		136,663	137,201
Net defined benefit liability		624,954	246,443
Other liabilities		137,673	123,208
Total liabilities		19,830,916	24,250,559
Equity			
Share capital	10	11,511,900	4,008,900
Contributed surplus		27,778	27,778
Retained earnings		4,423,852	4,846,219
Accumulated other comprehensive income		14,825	8,763
Equity attributable to BDC's shareholder		15,978,355	8,891,660
Non-controlling interests		13,900	11,139
Total equity		15,992,255	8,902,799
Total liabilities and equity		35,823,171	33,153,358

Guarantees (Note 12)

Commitments (Notes 6, 7, 8, and 9)

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



Consolidated Statement of Income (loss)

(unaudited)

(in thousands of Canadian dollars)	Three months ended September 30		Six months ended on September 30	
	2020	2019	2020	2019
Interest income	402,196	444,765	787,346	876,287
Interest expense	22,966	92,764	49,478	184,928
Net interest income	379,230	352,001	737,868	691,359
Net realized gains (losses) on investments	(10,628)	52,202	1,965	220,031
Revenue from Advisory Services	4,227	6,590	8,284	13,902
Fee and other income	16,477	26,749	29,844	38,010
Net revenue	389,306	437,542	777,961	963,302
Provision for expected credit losses	(95,030)	(52,701)	(566,097)	(129,210)
Net change in unrealized appreciation (depreciation) of investments	8,018	71,209	140,264	12,718
Net foreign exchange gains (losses)	(12,959)	7,318	(35,536)	(8,647)
Net gains (losses) on other financial instruments	162	209	493	148
Income before operating and administrative expenses	289,497	463,577	317,085	838,311
Salaries and benefits	107,603	112,440	220,376	219,044
Premises and equipment	10,922	10,825	20,652	21,161
Other expenses	38,511	45,559	82,618	80,390
Operating and administrative expenses	157,036	168,824	323,646	320,595
Net income (loss)	132,461	294,753	(6,561)	517,716
Net income (loss) attributable to:				
BDC's shareholder	131,515	302,479	(9,455)	511,409
Non-controlling interests	946	(7,726)	2,894	6,307
Net income (loss)	132,461	294,753	(6,561)	517,716

The accompanying notes are an integral part of these Consolidated Financial Statements. Note 11 provides additional information on segmented net income.



Consolidated Statement of Comprehensive Income (Loss)

(unaudited)

(in thousands of Canadian dollars)	Three months ended September 30		Six months ended on September 30	
	2020	2019	2020	2019
Net income (loss)	132,461	294,753	(6,561)	517,716
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	(2,523)	(1,515)	6,653	115
Net change in unrealized gains (losses) on cash flow hedges	(340)	(297)	(591)	(593)
Total items that may be reclassified subsequently to net income	(2,863)	(1,812)	6,062	(478)
Items that will not be reclassified to net income				
Remeasurements of net defined benefit asset or liability	(11,034)	(9,745)	(412,912)	(102,582)
Other comprehensive income (loss)	(13,897)	(11,557)	(406,850)	(103,060)
Total comprehensive income (loss)	118,564	283,196	(413,411)	414,656
Total comprehensive income (loss) attributable to:				
BDC's shareholder	117,618	290,922	(416,305)	408,349
Non-controlling interests	946	(7,726)	2,894	6,307
Total comprehensive income (loss)	118,564	283,196	(413,411)	414,656

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

Consolidated Statement of Changes in Equity

For the three months ended September 30
(unaudited)

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)			Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
				FVOCI assets ⁽¹⁾	Cash flow hedges	Total			
Balance as at June 30, 2020	11,511,900	27,778	4,303,371	14,442	3,246	17,688	15,860,737	13,061	15,873,798
Total comprehensive income (loss)									
Net income			131,515				131,515	946	132,461
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on fair value through other comprehensive income assets				(2,523)		(2,523)	(2,523)		(2,523)
Net change in unrealized gains (losses) on cash flow hedges					(340)	(340)	(340)		(340)
Remeasurements of net defined benefit asset or liability			(11,034)				(11,034)		(11,034)
Other comprehensive income (loss)	-	-	(11,034)	(2,523)	(340)	(2,863)	(13,897)	-	(13,897)
Total comprehensive income (loss)	-	-	120,481	(2,523)	(340)	(2,863)	117,618	946	118,564
Distributions to non-controlling interests								(107)	(107)
Transactions with owner, recorded directly in equity	-	-	-	-	-	-	-	(107)	(107)
Balance as at September 30, 2020	11,511,900	27,778	4,423,852	11,919	2,906	14,825	15,978,355	13,900	15,992,255

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

(1) Fair value through other comprehensive income assets

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



Consolidated Statement of Changes in Equity

For the six months ended September 30
(unaudited)

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)			Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
				FVOCI assets ⁽¹⁾	Cash flow hedges	Total			
Balance as at March 31, 2020	4,008,900	27,778	4,846,219	5,266	3,497	8,763	8,891,660	11,139	8,902,799
Total comprehensive income (loss)									
Net income (loss)			(9,455)				(9,455)	2,894	(6,561)
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on fair value through other comprehensive income assets				6,653		6,653	6,653		6,653
Net change in unrealized gains (losses) on cash flow hedges					(591)	(591)	(591)		(591)
Remeasurements of net defined benefit asset or liability			(412,912)				(412,912)		(412,912)
Other comprehensive income (loss)	-	-	(412,912)	6,653	(591)	6,062	(406,850)	-	(406,850)
Total comprehensive income (loss)	-	-	(422,367)	6,653	(591)	6,062	(416,305)	2,894	(413,411)
Distributions to non-controlling interests								(144)	(144)
Capital injections from non-controlling interests								11	11
Issuance of common shares	7,503,000						7,503,000		7,503,000
Transactions with owner, recorded directly in equity	7,503,000	-	-	-	-	-	7,503,000	(133)	7,502,867
Balance as at September 30, 2020	11,511,900	27,778	4,423,852	11,919	2,906	14,825	15,978,355	13,900	15,992,255

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

(1) Fair value through other comprehensive income assets

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



Consolidated Statement of Cash Flows

(unaudited)

(in thousands of Canadian dollars)	Three months ended		Six months ended	
	September 30		September 30	
	2020	2019	2020	2019
Operating activities				
Net income (loss)	132,461	294,753	(6,561)	517,716
Adjustments to determine net cash flows				
Interest income	(402,196)	(444,765)	(787,346)	(876,287)
Interest expense	22,438	92,281	48,411	183,957
Interest on lease liabilities	528	483	1,067	971
Net realized losses (gains) on investments	10,628	(52,202)	(1,965)	(220,031)
Provision for expected credit losses	95,030	52,701	566,097	129,210
Net change in unrealized depreciation (appreciation) of investments	(8,018)	(71,209)	(140,264)	(12,718)
Net unrealized foreign exchange losses (gains)	32,637	(7,293)	62,460	7,062
Net unrealized losses (gains) on other financial instruments	177	87	98	444
Defined benefits funding below (in excess of) amounts expensed	7,603	7,740	7,379	11,549
Depreciation of property and equipment, and amortization of intangible assets	5,424	4,815	10,593	9,425
Depreciation of right-of-use assets	3,895	3,380	7,768	7,025
Other	(7,853)	(4,108)	(14,756)	(6,810)
Interest expense paid	(24,202)	(94,089)	(52,134)	(182,644)
Interest income received	386,671	445,106	759,151	868,822
Changes in operating assets and liabilities				
Net change in loans	(1,026,676)	(559,033)	(3,033,398)	(1,162,830)
Net change in accounts payable and accrued liabilities	(36,448)	(46,474)	50,096	(39,423)
Net change in other assets and other liabilities	1,899	1,086	(22,960)	8,527
Net cash flows provided (used) by operating activities	(806,002)	(376,741)	(2,546,264)	(756,035)
Investing activities				
Disbursements for asset-backed securities	(25,857)	(101,846)	(94,802)	(231,807)
Repayments and proceeds on sale of asset-backed securities	88,307	101,888	163,565	178,929
Disbursements for subordinate financing investments	(93,458)	(185,474)	(187,340)	(329,832)
Repayments of subordinate financing investments	53,994	118,614	101,656	178,305
Disbursements for venture capital investments	(104,268)	(90,153)	(247,421)	(146,371)
Proceeds on sale of venture capital investments	28,041	107,663	61,612	310,181
Acquisition of property and equipment	(3,933)	(4,074)	(6,556)	(10,417)
Acquisition of intangible assets	(2,287)	(2,638)	(5,445)	(5,130)
Net cash flows provided (used) by investing activities	(59,461)	(56,020)	(214,731)	(56,142)
Financing activities				
Net change in short-term notes	(3,439,000)	(870,000)	(5,341,855)	(1,020,000)
Issue of long-term notes	-	830,000	495,000	1,480,000
Distributions to non-controlling interests	(107)	(2,734)	(144)	(2,809)
Capital injections from non-controlling interests	-	-	11	-
Issuance of common shares	-	462,000	7,503,000	462,000
Dividends paid on common shares	-	-	-	(128,400)
Payment of lease liabilities	(3,628)	(3,712)	(6,383)	(7,607)
Net cash flows provided (used) by financing activities	(3,442,735)	415,554	2,649,629	783,184
Net increase (decrease) in cash and cash equivalents	(4,308,198)	(17,207)	(111,366)	(28,993)
Cash and cash equivalents at beginning of period	6,018,229	692,194	1,821,397	703,980
Cash and cash equivalents at end of period	1,710,031	674,987	1,710,031	674,987

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



Notes to the Consolidated Financial Statements

(unaudited in thousands of Canadian dollars)

1.

BDC general description

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

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

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

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, 2020. They should be read in conjunction with the audited Consolidated Financial Statements for the year ended March 31, 2020 and the accompanying notes as set out on pages 62 to 128 of BDC's 2020 Annual Report.

The condensed quarterly Consolidated Financial Statements have also been prepared in accordance with the accounting policies BDC expects to use in its annual Consolidated Financial Statements for the year ending March 31, 2021. If BDC changes the application of these policies, it may result in a restatement of these condensed quarterly Consolidated Financial Statements.

The condensed quarterly Consolidated Financial Statements were approved for issue by the Board of Directors on November 18, 2020.



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, 2020, with the exception of the following change to Note 24 - *Risk management* of the 2020 Annual Report: BDC's Treasury Risk Policy was amended on May 13, 2020 to raise the maximum liquidity level from 30 days to 90 days to cover for the higher operational and funding risks and ensure the level of liquidity is sufficient in response to major disruptions during the COVID-19 pandemic. 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 2020 Annual Report and the accompanying notes, as set out on pages 62 to 128 of our 2020 Annual Report.

4.

Significant accounting judgements, estimates and assumptions

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

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

For information about the significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the condensed quarterly Consolidated Financial Statements, refer to page 79 of our 2020 Annual Report.

Uncertainties related to COVID-19

Since March 2020, the Coronavirus outbreak evolved rapidly, resulting in an economic crisis. The economic environment remains uncertain at the reporting date and continues to have a significant impact on our financial results. The recovery will depend on the speed at which the outbreak is controlled. As at September 30, 2020, in light of the current uncertainty, significant judgement was made in the assessment of the impact of COVID-19 on the allowance for expected credit losses (ECL), particularly with regards to the macro-economic scenarios and the corresponding weights of these scenarios, including expert credit judgement, as considered necessary, which contributed to an increase in loans classified in stage 2 and a higher level of allowance for expected credit losses. Actual results may differ materially from those recorded for the six-month period ended on September 30, 2020.

As a result of the spread of COVID-19, the fair value measurements of our subordinated financing and venture capital investments were impacted by the volatility in financial markets. For the fair value of our investments that cannot be derived from active markets, our valuation techniques have taken into consideration inputs that are derived from observable market data. Adjustments were made based on public market trading comparables and investment-specific characteristics, and we used a net asset, market, or an income approach, adjusted for industry factors. For our direct venture capital investments, we have made an assessment of their going-concern assumption based on the expected financial challenges the investees are experiencing with special attention to the most impacted industries. Changes in these assumptions may have a significant impact on the valuations.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



5.

Fair value of financial instruments

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

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

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

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

	Fair value measurements using			September 30, 2020
	Level 1	Level 2	Level 3	Total fair value
Assets				
Derivative assets	-	6,192	-	6,192
Asset-backed securities	-	715,711	-	715,711
Subordinate financing investments	27,610	-	1,272,390	1,300,000
Venture capital investments	86,006	-	1,952,601	2,038,607
	113,616	721,903	3,224,991	4,060,510
Liabilities				
Derivative liabilities	-	6,802	-	6,802
Long-term notes designated as fair value through profit or loss	-	133,523	-	133,523
	-	140,325	-	140,325
				March 31, 2020
	Fair value measurements using			Total fair value
	Level 1	Level 2	Level 3	
Assets				
Derivative assets	-	12,356	-	12,356
Asset-backed securities	-	777,838	-	777,838
Subordinate financing investments	7,161	-	1,233,427	1,240,588
Venture capital investments	44,314	-	1,676,822	1,721,136
	51,475	790,194	2,910,249	3,751,918
Liabilities				
Derivative liabilities	-	16,125	-	16,125
Long-term notes designated as fair value through profit or loss	-	135,734	-	135,734
	-	151,859	-	151,859

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.

	Subordinate financing investments	Venture capital investments	Total
Fair value as at April 1, 2020	1,233,427	1,676,822	2,910,249
Net realized gains (losses) on investments	7,246	(4,834)	2,412
Net change in unrealized appreciation (depreciation) of investments	(41,117)	128,521	87,404
Net unrealized foreign exchange gains (losses) on investments	-	(31,707)	(31,707)
Disbursements for investments	179,341	247,421	426,762
Repayments of investments and other	(106,507)	(57,443)	(163,950)
Transfers from level 3 to level 1	-	(6,179)	(6,179)
Fair value as at September 30, 2020	1,272,390	1,952,601	3,224,991

	Subordinate financing investments	Venture capital investments	Total
Fair value as at April 1, 2019	1,144,759	1,791,118	2,935,877
Net realized gains (losses) on investments	(5,064)	39,449	34,385
Net change in unrealized appreciation (depreciation) of investments	(101,358)	(248,773)	(350,131)
Net unrealized foreign exchange gains (losses) on investments	-	34,718	34,718
Disbursements for investments	534,443	266,412	800,855
Repayments of investments and other	(339,353)	(185,236)	(524,589)
Transfers from level 1 to level 3	-	8,312	8,312
Transfers from level 3 to level 1	-	(29,178)	(29,178)
Fair value as at March 31, 2020	1,233,427	1,676,822	2,910,249

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



6.

Loans

The following tables summarize loans outstanding by contractual maturity date.

	Within 1 year	1 to 5 years	Over 5 years	Total gross carrying amount	Allowance for expected credit losses	Total net carrying amount
Performing	461,493	4,543,598	25,235,551	30,240,642	(1,196,355)	29,044,287
Impaired	59,822	169,458	998,684	1,227,964	(487,945)	740,019
Loans as at September 30, 2020	521,315	4,713,056	26,234,235	31,468,606	(1,684,300)	29,784,306

	Within 1 year	1 to 5 years	Over 5 years	Total gross carrying amount	Allowance for expected credit losses	Total net carrying amount
Performing	431,261	2,881,530	24,097,877	27,410,668	(784,505)	26,626,163
Impaired	47,155	162,819	851,619	1,061,593	(414,668)	646,925
Loans as at March 31, 2020	478,416	3,044,349	24,949,496	28,472,261	(1,199,173)	27,273,088

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

	Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2020	270,249	514,256	414,668	1,199,173
Provision for expected credit losses				
Transfer to Stage 1 ⁽¹⁾	129,202	(129,146)	(56)	-
Transfer to Stage 2 ⁽¹⁾	(143,443)	151,481	(8,038)	-
Transfer to Stage 3 ⁽¹⁾	(637)	(41,352)	41,989	-
Net remeasurement of allowance for expected credit losses ⁽²⁾	83,985	223,052	93,971	401,008
Financial assets that have been fully repaid	(15,106)	(19,161)	(18,682)	(52,949)
New financial assets originated	189,706	44,992	-	234,698
Write-offs	-	-	(45,176)	(45,176)
Recoveries	-	-	8,161	8,161
Foreign exchange and other movements	(27,358)	(34,365)	1,108	(60,615)
Balance as at September 30, 2020	486,598	709,757	487,945	1,684,300

	Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2019	106,880	183,627	338,735	629,242
Provision for expected credit losses				
Transfer to Stage 1 ⁽¹⁾	69,846	(67,566)	(2,280)	-
Transfer to Stage 2 ⁽¹⁾	(73,641)	102,489	(28,848)	-
Transfer to Stage 3 ⁽¹⁾	(2,186)	(42,806)	44,992	-
Net remeasurement of allowance for expected credit losses ⁽²⁾	87,231	315,604	232,432	635,267
Financial assets that have been fully repaid	(12,306)	(22,947)	(36,737)	(71,990)
New financial assets originated	84,076	23,685	-	107,761
Write-offs	-	-	(153,529)	(153,529)
Recoveries	-	40	18,671	18,711
Foreign exchange and other movements	10,349	22,130	1,232	33,711
Balance as at March 31, 2020	270,249	514,256	414,668	1,199,173

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

⁽²⁾ Explains the movement in the allowance for expected credit losses attributable to changes in the gross carrying amount and credit risk of existing loans, changes to inputs and assumptions and partial repayments.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Concentrations of total loans outstanding and undisbursed commitments

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

Undisbursed amounts of authorized loans were \$3,134,465 as at September 30, 2020 (\$815,493 at fixed rates; \$2,318,972 at floating rates). The weighted average effective interest rate was 4.02% on loan commitments (5.2% as at September 30, 2019).

Geographic distribution	September 30, 2020		March 31, 2020	
	Outstanding	Commitments	Outstanding	Commitments
Newfoundland and Labrador	883,270	41,147	870,736	66,841
Prince Edward Island	79,963	4,013	78,750	2,098
Nova Scotia	728,325	57,593	676,641	82,782
New Brunswick	534,405	34,334	524,227	38,746
Quebec	10,024,397	895,010	8,960,967	943,956
Ontario	8,724,419	921,354	7,784,743	839,924
Manitoba	860,396	82,487	805,175	80,986
Saskatchewan	838,171	70,558	793,821	62,499
Alberta	4,515,948	536,937	4,131,995	483,156
British Columbia	4,093,143	474,335	3,673,584	458,736
Yukon	122,316	2,981	117,235	3,019
Northwest Territories and Nunavut	63,853	13,716	54,387	11,906
Total loans outstanding⁽¹⁾	31,468,606	3,134,465	28,472,261	3,074,649

Industry sector	September 30, 2020		March 31, 2020	
	Outstanding	Commitments	Outstanding	Commitments
Manufacturing	6,997,270	865,066	6,434,657	857,111
Wholesale and retail trade	5,901,370	548,898	5,204,352	511,853
Service industries	4,808,384	407,431	4,156,135	414,829
Tourism	3,676,757	248,966	3,295,761	273,727
Commercial properties	3,224,014	93,338	3,148,960	130,238
Construction	2,707,290	318,963	2,364,589	298,909
Transportation and storage	1,866,486	169,550	1,778,237	170,721
Resources	1,228,652	281,483	1,145,173	230,917
Other	1,058,383	200,770	944,397	186,344
Total loans outstanding⁽¹⁾	31,468,606	3,134,465	28,472,261	3,074,649

⁽¹⁾ Loans commitments included \$2,694,639 in the Financing segment, and \$439,826 in the Credit Availability Program segment as at September 30, 2020 (\$3,074,649, and nil respectively, as at March 31, 2020).

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

	Allowance for expected credit losses on commitments			
	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2020	41,778	25,281	-	67,059
Net remeasurement of the allowance for expected credit losses	(6,289)	3,688	-	(2,601)
Net increase (decrease) in commitments	29,450	(371)	-	29,079
Foreign exchange and other movements	3,574	2,642	-	6,216
Balance as at September 30, 2020	68,513	31,240	-	99,753

	Allowance for expected credit losses on commitments			
	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2019	17,984	4,481	-	22,465
Net remeasurement of the allowance for expected credit losses	(2,039)	12,078	-	10,039
Net increase (decrease) in commitments	25,102	8,190	-	33,292
Foreign exchange and other movements	731	532	-	1,263
Balance as at March 31, 2020	41,778	25,281	-	67,059

7.

Asset-backed securities

The following table summarizes asset-backed securities (“ABS”) by classification of financial instruments. No ABS were impaired as at September 30, 2020 or March 31, 2020. No allowances for expected credit losses were recorded for disbursed and undisbursed ABS at fair value through other comprehensive income as at September 30, 2020 or March 31, 2020.

	September 30, 2020	March 31, 2020
Fair value through other comprehensive income		
Principal amount	694,562	762,715
Cumulative fair value appreciation (depreciation)	11,919	5,266
Carrying value	706,481	767,981
Yield	2.47%	2.59%
Fair value through profit or loss		
Principal amount	8,963	9,701
Cumulative fair value appreciation (depreciation)	267	156
Carrying value	9,230	9,857
Yield	7.36%	7.56%
Asset-backed securities	715,711	777,838

Committed amounts of authorized asset-backed securities were \$392,252 as at September 30, 2020 (\$238,489 as at March 31, 2020).

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, 2020	192,080	889,887	399,756	1,481,723	1,300,000
As at March 31, 2020	165,748	808,846	419,049	1,393,643	1,240,588

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

Concentrations of subordinate financing investments and commitments

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

Undisbursed amounts of authorized investments totalled \$151,649 as at September 30, 2020 (\$104,171 at fixed rates; \$47,478 at floating rates). The weighted average effective interest rate was 7.7% on subordinate financing commitments (9.0% as at September 30, 2019), excluding non-interest return.

Geographic distribution	September 30, 2020			March 31, 2020		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Newfoundland and Labrador	20,370	28,931	6,875	18,402	26,509	6,875
Nova Scotia	12,023	15,851	10,000	10,557	12,720	5,000
New Brunswick	13,146	12,624	5,000	16,044	16,387	-
Quebec	424,726	465,069	26,156	426,149	462,558	35,050
Ontario	470,371	526,933	72,910	442,600	498,251	66,251
Manitoba	3,827	5,696	-	1,720	3,316	10,500
Saskatchewan	42,232	55,843	-	46,224	58,169	600
Alberta	146,110	195,346	13,300	136,548	167,057	25,615
British Columbia	164,982	172,807	17,408	139,509	145,709	26,431
Yukon	275	332	-	325	332	-
Northwest Territories and Nunavut	1,938	2,291	-	2,510	2,635	-
Subordinate financing investments⁽¹⁾	1,300,000	1,481,723	151,649	1,240,588	1,393,643	176,322

Industry sector	September 30, 2020			March 31, 2020		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Manufacturing	388,233	478,268	29,863	367,429	430,194	42,104
Service industries	390,156	404,222	48,773	327,271	349,335	67,951
Wholesale and retail trade	171,811	207,959	20,058	190,756	211,079	10,400
Resources	111,641	139,599	21,000	105,545	133,594	9,000
Information industries	112,993	112,909	18,489	101,800	112,665	19,614
Construction	51,952	54,845	9,500	57,691	63,012	10,000
Transportation and storage	41,327	49,385	2,300	48,431	52,565	3,300
Educational services	13,473	13,400	-	11,457	12,043	11,250
Tourism	4,520	9,720	1,666	10,419	11,762	2,703
Other	13,894	11,416	-	19,789	17,394	-
Subordinate financing investments⁽¹⁾	1,300,000	1,481,723	151,649	1,240,588	1,393,643	176,322

⁽¹⁾ Subordinate financing commitments included \$1,014 in the Financing segment, \$93,466 in the Growth & Transition Capital segment, \$44,561 in the Cleantech Practice segment, and \$12,608 in the Credit Availability Program segment as at September 30, 2020 (\$3,400, \$125,641, \$47,281, and nil respectively, as at March 31, 2020).

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

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

Investment type	September 30, 2020			March 31, 2020		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Direct investments	869,390	756,457	61,919	692,194	633,443	33,812
Indirect investments in funds ⁽¹⁾	1,169,217	907,360	761,522	1,028,942	848,180	811,658
Venture capital investments ⁽²⁾	2,038,607	1,663,817	823,441	1,721,136	1,481,623	845,470

⁽¹⁾ As at September 30, 2020, BDC has invested in 89 funds through its VC segment, 21 funds through its VCIP segment and 3 funds through its Cleantech Practice segment (84, 21 and 3 funds, respectively, as at March 31, 2020).

⁽²⁾ Venture Capital commitments included \$396,151 in the Venture Capital segment, \$332,061 in the Venture Capital Incentive Programs segment, \$46,611 in the Cleantech Practice segment, and \$48,618 in the Credit Availability Program segment as at September 30, 2020 (\$449,622, \$347,712, and \$48,136, and nil respectively, as at March 31, 2020)

Concentrations of total venture capital investments and commitments

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

Industry sector	September 30, 2020			March 31, 2020		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Information technology	434,376	375,066	27,654	376,573	303,365	12,151
Communications	107,293	89,498	4,027	86,829	69,161	1,906
Biotechnology and pharmacology	78,819	61,253	7,341	46,879	57,754	4,415
Electronics	65,513	75,354	1,650	58,792	70,836	796
Medical and health	46,935	33,503	10,106	24,169	55,481	-
Industrial	34,567	29,313	9,509	33,799	26,705	-
Energy	24,422	19,670	1,582	27,137	19,670	482
Other	77,465	72,800	50	38,016	30,471	14,062
Total direct investments	869,390	756,457	61,919	692,194	633,443	33,812

10.

Share capital

An unlimited number of common shares, having a par value of \$100 each, is authorized. As at September 30, 2020, there were 115,119,000 common shares outstanding (40,089,000 as at March 31, 2020).

On June 23, 2020, BDC received \$7.503 billion in cash for the issuance of 75,030,000 common shares, which represents a capital injection to support a series of measures BDC launched for Canadian businesses during the COVID-19 crisis including the delivery of the Business Credit Availability Program (BCAP).

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 excluding accumulated other comprehensive income.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Effective September 30, 2020, the Minister of Finance confirmed that the amount of paid-in-capital, together with any contributed surplus and any proceeds that have been prescribed as equity, must not at any time exceed \$20.0 billion per an amendment to the *Business Development Bank of Canada Act, 1995*.

During the three months ended September 30, 2020 and the year ended March 31, 2020, BDC met both of these statutory limitations.

Capital adequacy

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

On May 5, 2020 the Board of Directors' approved a new capital management framework to ensure effective capital management in alignment with regulatory guidelines (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. The new capital management framework will incorporate changes in both the available capital definition as well as in the required capital quantification. The new framework is effective April 1, 2020.

Available capital

Modifications arising from the new Capital Management framework primarily relate to the collective allowance addback to capital as prescribed in OSFI's Capital Adequacy Requirements under the Standardized Approach.

Required capital

Modifications arising from the new Capital Management framework primarily relate to the removal of capital reserves (Stress testing and Venture Capital), the alignment to industry standards for solvency rating, adjustment of the operating range definition and the update of economic capital models validated by third parties.



11.

Segmented information

BDC reports on seven business lines: Financing, Advisory Services, Growth & Transition Capital (GTC), Venture Capital (VC), Venture Capital Incentive Programs (VCIP), Cleantech Practice 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** offer advisory services through a variety of solutions for both smaller and larger companies, supports high-impact firms, provides free online educational content and other services related to business activities.
- **Growth & Transition Capital** provides subordinate financing by way of flexible debt, with or without convertible features, and equity-type financing to support the growth and transition projects of SMEs.
- **Venture Capital** provides investments to cover every stage of a technology-based company's development cycle, from seed funding to expansion. VC is focused on fast-growing companies having promising positions in their respective marketplaces and strong growth potential. BDC also makes indirect investments via venture capital investment funds.
- **Venture Capital Incentive Programs** includes Venture Capital Action Plan (VCAP) and Venture Capital Catalyst Initiative (VCCI). VCAP is a \$390.0 million 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 \$450.0 million is made available through BDC over three years to provide late-stage venture capital to support the growth of innovative start-ups.
- **Cleantech Practice** provides subordinate financing and venture capital investments to promising clean technology firms. Cleantech Practice will deploy \$600.0 million entrusted by the federal government in debt and equity transactions to help build globally competitive Canadian cleantech firms and a commercially sustainable cleantech industry.
- **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 CAP 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, and measures delivered directly by 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.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

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

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

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

	Three months ended September 30, 2020							
	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice	Credit Availability Program
Interest income	402,196	359,780	-	23,814	-	-	1,979	16,623
Interest expense	22,966	20,745	-	1,603	-	-	-	618
Net interest income	379,230	339,035	-	22,211	-	-	1,979	16,005
Net realized gains (losses) on investments	(10,628)	-	-	11,054	(21,682)	-	-	-
Revenue from Advisory Services	4,227	-	4,227	-	-	-	-	-
Fee and other income	16,477	5,943	5	4,425	1,690	79	230	4,105
Net revenue (loss)	389,306	344,978	4,232	37,690	(19,992)	79	2,209	20,110
Provision for expected credit losses	(95,030)	(48,655)	-	-	-	-	-	(46,375)
Net change in unrealized appreciation (depreciation) of investments	8,018	(3,929)	-	(23,557)	60,866	(19,573)	(5,771)	(18)
Net foreign exchange gains (losses)	(12,959)	(279)	-	(426)	(11,840)	(278)	(64)	(72)
Net gains (losses) on other financial instruments	162	162	-	-	-	-	-	-
Income (loss) before operating and administrative expenses	289,497	292,277	4,232	13,707	29,034	(19,772)	(3,626)	(26,355)
Salaries and benefits	107,603	51,764	11,959	8,317	5,189	153	736	29,485
Premises and equipment	10,922	6,099	883	498	508	36	54	2,844
Other expenses	38,511	25,646	3,111	1,110	1,976	166	94	6,408
Operating and administrative expenses	157,036	83,509	15,953	9,925	7,673	355	884	38,737
Net income (loss)	132,461	208,768	(11,721)	3,782	21,361	(20,127)	(4,510)	(65,092)
Net income (loss) attributable to:								
BDC's shareholder	131,515	208,768	(11,721)	4,366	19,831	(20,127)	(4,510)	(65,092)
Non-controlling interests	946	-	-	(584)	1,530	-	-	-
Net income (loss)	132,461	208,768	(11,721)	3,782	21,361	(20,127)	(4,510)	(65,092)

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Three months ended
September 30, 2019

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice	Credit Availability Program
Interest income	444,765	417,682	-	25,782	-	-	1,301	-
Interest expense	92,764	90,066	-	2,698	-	-	-	-
Net interest income	352,001	327,616	-	23,084	-	-	1,301	-
Net realized gains (losses) on investments	52,202	-	-	4,211	47,991	-	-	-
Revenue from Advisory Services	6,590	-	6,590	-	-	-	-	-
Fee and other income	26,749	5,885	-	11,587	7,395	679	1,203	-
Net revenue	437,542	333,501	6,590	38,882	55,386	679	2,504	-
Provision for expected credit losses	(52,701)	(52,701)	-	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	71,209	2,148	-	(2,217)	60,047	8,584	2,647	-
Net foreign exchange gains (losses)	7,318	(803)	-	253	7,739	107	22	-
Net gains (losses) on other financial instruments	209	209	-	-	-	-	-	-
Income before operating and administrative expenses	463,577	282,354	6,590	36,918	123,172	9,370	5,173	-
Salaries and benefits	112,440	83,216	12,820	10,293	5,116	304	691	-
Premises and equipment	10,825	8,493	1,042	584	599	54	53	-
Other expenses	45,559	36,850	4,474	1,511	2,340	287	97	-
Operating and administrative expenses	168,824	128,559	18,336	12,388	8,055	645	841	-
Net income (loss)	294,753	153,795	(11,746)	24,530	115,117	8,725	4,332	-
Net income (loss) attributable to:								
BDC's shareholder	302,479	153,795	(11,746)	22,891	124,482	8,725	4,332	-
Non-controlling interests	(7,726)	-	-	1,639	(9,365)	-	-	-
Net income (loss)	294,753	153,795	(11,746)	24,530	115,117	8,725	4,332	-

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Six months ended
September 30, 2020

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice	Credit Availability Program
Interest income	787,346	718,542	-	43,703	-	-	3,571	21,530
Interest expense	49,478	45,497	-	3,152	-	-	-	829
Net interest income	737,868	673,045	-	40,551	-	-	3,571	20,701
Net realized gains (losses) on investments	1,965	-	-	7,246	(5,281)	-	-	-
Revenue from Advisory Services	8,284	-	8,284	-	-	-	-	-
Fee and other income	29,844	11,359	7	11,224	1,695	162	567	4,830
Net revenue (loss)	777,961	684,404	8,291	59,021	(3,586)	162	4,138	25,531
Provision for expected credit losses	(566,097)	(380,305)	-	-	-	-	-	(185,792)
Net change in unrealized appreciation (depreciation) of investments	140,264	(4,488)	-	(24,979)	141,756	28,185	(192)	(18)
Net foreign exchange gains (losses)	(35,536)	(761)	-	(1,234)	(32,394)	(688)	(229)	(230)
Net gains (losses) on other financial instruments	493	493	-	-	-	-	-	-
Income (loss) before operating and administrative expenses	317,085	299,343	8,291	32,808	105,776	27,659	3,717	(160,509)
Salaries and benefits	220,376	101,623	19,720	14,692	9,922	266	1,405	72,748
Premises and equipment	20,652	10,406	1,450	880	926	57	156	6,777
Other expenses	82,618	57,586	6,125	2,215	4,538	264	191	11,699
Operating and administrative expenses	323,646	169,615	27,295	17,787	15,386	587	1,752	91,224
Net income (loss)	(6,561)	129,728	(19,004)	15,021	90,390	27,072	1,965	(251,733)
Net income (loss) attributable to:								
BDC's shareholder	(9,455)	129,728	(19,004)	15,723	86,794	27,072	1,965	(251,733)
Non-controlling interests	2,894	-	-	(702)	3,596	-	-	-
Net income (loss)	(6,561)	129,728	(19,004)	15,021	90,390	27,072	1,965	(251,733)
Business segment portfolio as at September 30, 2020								
Loans, net of allowance for expected credit losses	29,784,306	27,446,853	-	-	-	-	-	2,337,453
Asset-backed securities	715,711	715,711	-	-	-	-	-	-
Subordinate financing investments	1,300,000	17,017	-	1,083,478	-	-	186,113	13,392
Venture capital investments	2,038,607	-	-	-	1,497,548	469,439	5,176	66,444
Total portfolio	33,838,624	28,179,581	-	1,083,478	1,497,548	469,439	191,289	2,417,289

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Six months ended
September 30, 2019

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice	Credit Availability Program
Interest income	876,287	823,153	-	50,918	-	-	2,216	-
Interest expense	184,928	179,570	-	5,358	-	-	-	-
Net interest income	691,359	643,583	-	45,560	-	-	2,216	-
Net realized gains (losses) on investments	220,031	(1)	-	3,890	216,142	-	-	-
Revenue from Advisory Services	13,902	-	13,902	-	-	-	-	-
Fee and other income	38,010	11,480	-	15,981	8,361	734	1,454	-
Net revenue	963,302	655,062	13,902	65,431	224,503	734	3,670	-
Provision for expected credit losses	(129,210)	(129,210)	-	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	12,718	732	-	(5,961)	(7,123)	20,471	4,599	-
Net foreign exchange gains (losses)	(8,647)	(2,432)	-	(106)	(6,227)	(47)	165	-
Net gains (losses) on other financial instruments	148	148	-	-	-	-	-	-
Income before operating and administrative expenses	838,311	524,300	13,902	59,364	211,153	21,158	8,434	-
Salaries and benefits	219,044	161,412	25,392	20,774	9,508	590	1,368	-
Premises and equipment	21,161	16,680	2,084	1,167	1,014	109	107	-
Other expenses	80,390	62,836	8,997	2,847	4,963	451	296	-
Operating and administrative expenses	320,595	240,928	36,473	24,788	15,485	1,150	1,771	-
Net income (loss)	517,716	283,372	(22,571)	34,576	195,668	20,008	6,663	-
Net income (loss) attributable to:								
BDC's shareholder	511,409	283,372	(22,571)	32,940	190,997	20,008	6,663	-
Non-controlling interests	6,307	-	-	1,636	4,671	-	-	-
Net income (loss)	517,716	283,372	(22,571)	34,576	195,668	20,008	6,663	-
Business segment portfolio as at September 30, 2019								
Loans, net of allowance for expected credit losses	26,953,528	26,953,528	-	-	-	-	-	-
Asset-backed securities	753,293	753,293	-	-	-	-	-	-
Subordinate financing investments	1,305,576	11,131	-	1,205,244	-	-	89,201	-
Venture capital investments	2,093,750	-	-	-	1,593,994	496,940	2,816	-
Total portfolio	31,106,147	27,717,952	-	1,205,244	1,593,994	496,940	92,017	-



12.

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 and actual exposure under the guarantees totalled \$9.3 million as at September 30, 2020 (\$11.1 million as at March 31, 2020) and the existing terms expire within 109 months (within 115 months as at March 31, 2020).

These financial guarantees were initially recognized at fair value on the date the guarantees were given. The fair value was considered nil, as all guarantees were agreed to on arm’s-length terms and no initial fees were received. In addition, no receivable for the future expected fees was recognized. Subsequent recognition of a liability will only occur when it becomes more likely than not that a client will not meet its contractual commitments. As at September 30, 2020 and March 31, 2020, there were no liabilities recognized in BDC’s Consolidated Statement of Financial Position related to these guarantees.

13.

Related party transactions

As at September 30, 2020, BDC had \$14,006.7 million outstanding in short-term notes and \$4,568.3 million in long-term notes with Her Majesty the Queen in Right of Canada acting through the Minister of Finance (\$19,356.3 million in short-term notes and \$4,071.3 million in long-term notes as at March 31, 2020).

BDC recorded \$23.0 million in interest expense, related to the borrowings from the Minister of Finance, for the quarter and \$50.8 million for the six-months ended September 30, 2020. Last year’s comparative figures for the same period were \$93.6 million and \$187.8 million, respectively.

In addition, \$5,305.0 million in borrowings with the Minister of Finance were repurchased in the first six months of fiscal 2021. This resulted in no gain or loss in the first six months of fiscal 2021 (\$310.0 million in borrowings were repurchased during the same period last year).

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

14.

Uncertainties related to COVID-19

The outbreak of a novel and highly contagious form of Coronavirus (“COVID-19”), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous government implemented lockdowns and other social distancing measures, adversely impacting global commercial activity and contributing to significant ongoing volatility and declines in the global financial markets. The Consolidated Financial Statements of BDC prepared as of, and for the quarter ended September 30, 2020 reflect the impacts resulting from COVID-19 to the extent known at the reporting date.



Business Development Bank of Canada

Head Office

5 Place Ville-Marie, Suite 100

Montreal, Quebec H3B 5E7

T 1 877 BDC-BANX (232-2269)

F 1 877 329-9232

For our business centres, please visit www.bdc.ca

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1-888-INFO-BDC