



2022

Financial Report

Second Quarter

September 30, 2021



Executive Summary

Canadian economic outlook

As the total number of new COVID-19 cases continue to decrease, the health situation is getting better especially in Canada. Disruptions to the economy by health authorities should be kept at a minimum now that 74% of the population is fully vaccinated¹ and booster shots are being administered. Despite these improvements, the Canadian economy continues to be challenged by the ongoing negative impact of the pandemic.

The Canadian economy struggled in the spring as it shook off the effects of the third wave of COVID-19 infections. GDP declined at an annualized rate of 1.1% between the first and second quarters, led by a slowdown in exports and residential investment.

The third quarter of the calendar year had a difficult start. Economic activity stumbled in July, as GDP fell 0.1%. GDP grew by 0.4% in August and early estimates suggest that it was essentially unchanged in September. The economy reached 98.6% of its pre-pandemic level in August.

The majority of health restrictions were lifted in the summer of 2021, ensuring the reopening of the Canadian economy and the return of economic activity for the high-contact service sectors, which were the most affected by the lockdowns and whose recovery is still not complete. These sectors include accommodation and food services, the economic activity of which rose by 7.0% in August compared to July while arts, entertainment and recreation services increased by 6.4%.

As the rebound continues in these industries, other major sectors of the economy have now reached a more mature stage of the recovery cycle. Canadian businesses will continue to experience strong demand, and a return to normal has begun.

Consumers started to reallocate their budgets from goods to services spending and this summer's reopenings allowed many Canadians to travel and reduce their spending on home renovation projects.

Activity in the resale housing market produced a strong recovery in early 2021, but home sales have been declining every month since March on the back of limited supply. The sector is therefore experiencing negative growth as the market cools down, but the level of activity remains higher than before the crisis.

Gains in employment increased in the third quarter when more than 341,000 jobs were created. Employment has now fully recovered to its pre-crisis level. The national unemployment rate edged down to 6.9% in September. However, labour shortages have been intensifying in many provinces and industries – 805,525 jobs remained vacant in July 2021.

The shortage of labour will limit growth moving forward as businesses are forced into difficult decisions, including limiting business hours.

Moreover, resource scarcity and supply chain challenges continue to mount. Delivery difficulties and a mismatch between supply and high demand for certain products and workers induced by the pandemic are increasingly putting pressure on production costs. Inflation reached 4.4% in September on the back of the base effect and could, therefore, continue to exceed the Bank of Canada's target range next year.

The Canadian economy is expected to grow by 5.2% this year despite scarcity of productive resources, including labour, that will be hampering growth in the coming months. Business and household balance sheets are healthy and will support the full recovery of the economy to its pre-pandemic level in the first half of 2022.

¹ As of October 28, 2021



Lines of business

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

In the third quarter of fiscal 2021, in order to be better aligned with the delivery of its services, BDC made some minor changes to its reporting structure, which were applied retrospectively. As a result, Growth Equity and Intellectual Property Investments, which were formerly included in the GTC segment, are now reported in the VC segment. Furthermore, Cleantech Practice is now included in the Capital Incentive Programs (CIP) segment, which was previously named the Venture Capital Incentive Programs (VCIP) segment. As a result, the CIP segment now includes Venture Capital Action Plan (VCAP), Venture Capital Catalyst Initiative (VCCI), Cleantech Practice and the Indigenous Growth Fund (IGF), four government-sponsored programs managed by BDC. Refer to Note 11—*Segmented information*, and Note 14—*Comparative information*, of the Consolidated Financial Statements for complete details.

Activities

BDC aims to contribute to a more competitive, prosperous and inclusive Canada, by supporting entrepreneurs in building resilient, growing businesses.

A critical part of our mission as a development bank is to ensure viable SMEs have access to the credit they need in difficult times. Throughout the COVID-19 pandemic, BDC has supported thousands of additional entrepreneurs, providing them with urgently needed capital and advice in complement to other government programs, through a variety of relief measures. These measures include the Business Credit Availability Program (BCAP) and the Highly Affected Sectors Credit Availability Program (HASCAP), which are delivered in collaboration with Canadian banks and credit unions, as well as measures delivered directly by BDC. All of these measures have been grouped together and are part of the Credit Availability Program (CAP), to distinguish them from BDC's core activities.

Core results are driven by the activities of the Financing, Advisory Services, Growth and Transition Capital, Venture Capital and Capital Incentive Programs business lines, whereas those of the CAP segment result from government-led initiatives including BDC-led COVID-19 initiatives.

Core activities

Demand for Financing is strong as the economy continued to recover from the impacts of the COVID-19 pandemic demonstrating that entrepreneurs are ready to invest to support their growth. Financing clients accepted a total of \$2.1 billion in loans during the second quarter and \$4.8 billion for the six-month period of fiscal 2022, compared to \$1.3 billion and \$2.2 billion, respectively, for the same periods last year. With the end of BDC working capital relief programs for COVID-19 on June 30, 2021, the volume of activities shifted back to Financing from the CAP segment. Financing's loans portfolio², excluding CAP loans, stood at \$28.9 billion as at September 30, 2021.

As entrepreneurs started to focus on growth and innovation, Advisory Services has returned to pre-pandemic level of activities after the slow down last year due to the pandemic. Net contracts signed increased in the second quarter to \$7.2 million and \$16.2 million for the six-month period, compared to \$1.8 million and \$3.8 million, respectively, for the same periods last year. Revenues also increased, totalling \$6.5 million in the second quarter and \$13.5 million for the six-month period ended September 30, 2021, 52.6% and 62.4% higher, compared to the same periods last fiscal.

GTC clients accepted \$125.8 million in financing during the second quarter and \$270.0 million for the six-month period, compared to \$30.5 million and \$70.1 million, respectively, for the same periods last year. Last year's activities for this period were shifted to CAP to meet working capital needs of entrepreneurs during the pandemic. These programs ended on June 30, 2021 as clients returned to normal activities and demand for business growth and transition financing picked up and is expected to remain strong in the upcoming months.

² Net of allowance for expected credit losses.



VC authorizations for the second quarter and the six-month period of fiscal 2022 were strong with investment authorizations totalling \$119.4 million and \$219.2 million, respectively, compared to \$32.2 million and \$126.8 million, respectively, for the same periods last year. The rise in authorizations was mainly driven by Growth Equity investments, which reached \$25.6 million in the second quarter and \$42.7 million for the six-month period, and Indirect investments, which increased to \$73.1 million in the second quarter and \$94.9 million for the six-month period.

CIP had \$39.0 million in authorizations in the second quarter and \$66.3 million in the first six months of fiscal 2022, compared to \$34.3 million and \$81.7 million, respectively for the same periods last year. The volume of authorizations for fiscal 2022 was attributable to the Cleantech Practice bringing its commitments to date to \$434.0 million out of a total envelope of \$600.0 million. VCAP commitments to date total \$380.3 million out of a total envelope of \$390.0 million, and VCCI commitments to date total \$365.2 million out a total envelope of \$371.0 million. Both envelopes were fully committed in fiscal 2021. CIP also includes an envelope of \$100.0 million for IGF.

Credit Availability Program (CAP)

As lockdowns were imposed in the spring of 2020, and continued well into 2021, entrepreneurs were confronted with severe cash-flow difficulties and an urgent need for capital. BDC cushioned the impact of the pandemic by substantially increasing our support for entrepreneurs and modifying our eligibility criteria to address the needs of a greater number of entrepreneurs.

All of our COVID-19 measures are grouped under the Credit Availability Program (CAP) segment, which includes government-led programs, delivered directly by us or in collaboration with Canadian banks and credit unions.

Initiatives delivered directly by BDC

In response to the COVID-19 crisis, BDC launched wide-ranging initiatives, including those related to online loan requests, working capital loans and bridge financing.

For online loans requests, we broadened our credit threshold and reduced pricing. For qualifying businesses, we offered working capital loans of up to \$2 million with flexible terms, such as principal payment postponements of six months. These two measures ended on June 30, 2021.

To support Canada's venture capital market, BDC 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 pandemic. Under this program, BDC matches up to 100% of the contributions of private investor syndicates that have arranged funding rounds of at least \$250,000 since February 1, 2020.

Initiatives delivered in collaboration with Canadian banks and credit unions

Business Credit Availability Program

The Business Credit Availability Program (BCAP) takes a collaborative approach to supporting the financing needs of entrepreneurs during the pandemic. BDC collaboratively provides support to financially viable Canadian businesses in all sectors and regions. Our efforts, together with a series of other federal government relief measures, were designed to fill market gaps in access to financing for entrepreneurs hit by the pandemic. BCAP includes the Co-Lending and Mid-Market Financing Programs.

For medium-sized businesses whose financing needs exceed loan amounts available through other BCAP and BDC direct measures, the Mid-Market Financing Program provides additional credit to complement businesses' existing debt facilities, working closely with their primary lenders. Part of the program has a particular focus on the oil and gas sector to facilitate support for qualified producers, oilfield service companies and midstream providers. These commercial loans, which take the form of junior loans, range between \$12.5 million and \$60.0 million each. Of the total amount, 90% is provided by BDC and 10% by the company's primary financial institution.

Through the Co-Lending Program, BDC supports the operational cash flow needs of SMEs by co-lending with Canadian banks and credit unions. Under the Co-Lending Program, eligible businesses can obtain incremental credit amounts of up to \$12.5 million, 80% of which is provided by BDC, with the remaining 20% provided by the company's primary financial institution.



Highly Affected Sectors Credit Availability Program

In its Fall Economic Statement 2020, the federal government announced a program to provide additional liquidity to businesses in sectors hardest hit by the COVID-19 pandemic, including tourism, hotels, arts and culture, and the airline industry. Under the Highly Affected Sectors Credit Availability Program (HASCAP), financial institutions will provide loans of up to \$1 million to eligible businesses. The loans will be 100% guaranteed by BDC and carry low interest rates and extended terms of up to 10 years. Under this program, BDC will also issue loans directly to its qualifying clients.

Total loan acceptances and investment authorizations for CAP initiatives, excluding HASCAP guarantees, reached \$37.5 million for the second quarter and \$249.7 million for the six-month period of fiscal 2022, compared to \$0.8 billion and \$3.0 billion, respectively for the same periods last year. The HASCAP guarantees acceptances amounted to \$832.6 million for the quarter and to \$2.1 billion for the six-month period compared to nil for the same periods last year. The carrying amount of CAP's loan and investment portfolio stood at \$3.3 billion as at September 30, 2021

Financial results overview

The COVID-19 pandemic resulted in significant disruptions to business operations, and an increase in economic uncertainty, adversely impacting global commercial activity and contributing to significant ongoing volatility and declines in the global financial markets. However, the overall economy gradually began to recover during F2021 and into F2022, and as a result, consolidated net income increased.

A consolidated net income of \$879.4 million was recorded for the second quarter and \$1.7 billion for the six-month period of fiscal 2022, consisting of a net income of \$896.0 million and \$1.8 billion, respectively, for the core business and a net loss of \$16.6 million and \$53.4 million, respectively, for CAP. In comparison, BDC reported a net income of \$132.4 million and a net loss of \$6.6 million, respectively, for the same periods last year, consisting of a 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. The higher results are mainly attributable to lower provision for expected credit losses due to reversals of the provision on the performing loans portfolio resulting from improved macro-economic factors and higher net fair value appreciation on the investments portfolio.

A \$735.0 million dividend was paid in June 2021 to our sole shareholder, the Government of Canada.



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

BDC is the bank for Canadian entrepreneurs. Its purpose is to support small and mid-sized businesses in all industries and at all stages of growth. Whether business owners want to take on new markets, make their operations more efficient, acquire another business or everything in between, BDC provides access to financing, as well as advisory services to meet their needs. BDC's investment arm, BDC Capital, offers a wide range of risk capital solutions.



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

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



Management Discussion and Analysis

Context of the Quarterly Financial Report

Management's Discussion and Analysis outlines the significant activities and initiatives, risks and financial results of the Business Development Bank of Canada (BDC) for the six months ended September 30, 2021. This analysis should be read in conjunction with BDC's unaudited condensed quarterly Consolidated Financial Statements included in this report, which have been prepared in accordance with the Standard on Quarterly Financial Reports for Crown Corporations, as required by section 131.1 of the *Financial Administration Act*. This analysis should also be read in conjunction with BDC's 2021 Annual Report. However, at the time of publishing this quarterly report, BDC's 2021 Annual Report has not been tabled in Parliament. Until that time, BDC is not in a position to provide the Management Discussion and Analysis for the year ended March 31, 2021.

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. 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, which BDC implemented at the request of the Government, deploy additional liquidity to support Canadian businesses and entrepreneurs who 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, 2021, compared to the corresponding periods of the prior fiscal year.

BDC currently reports on six business segments: Financing, Advisory Services, Growth & Transition Capital (GTC), Venture Capital (VC), Capital Incentive Programs (CIP) and the Credit Availability Program (CAP), a new segment created in fiscal 2021 to consolidate government-led initiatives including COVID-19 measures.

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.

Consolidated net income (loss)

	Three months ended September 30		Six months ended September 30	
(\$ in millions)	F2022	F2021	F2022	F2021
Financing	234.3	208.7	653.7	129.7
Advisory Services	(10.3)	(11.7)	(20.2)	(19.0)
Growth & Transition Capital	70.9	(19.4)	84.7	(9.9)
Venture Capital	511.3	44.5	745.3	115.3
Capital Incentive Programs	89.8	(24.6)	294.6	29.0
Core net income	896.0	197.5	1,758.1	245.1
Credit Availability Program	(16.6)	(65.1)	(53.4)	(251.7)
Net income (loss)	879.4	132.4	1,704.7	(6.6)
Net income (loss) attributable to:				
BDC's shareholder	850.3	131.5	1,676.0	(9.5)
Non-controlling interests	29.1	0.9	28.7	2.9
Net income (loss)	879.4	132.4	1,704.7	(6.6)

Three and six months ended September 30

For the quarter ended September 30, 2021, BDC's consolidated net income was \$879.4 million, comprising \$850.3 million of net income attributable to BDC's shareholder and \$29.1 million attributable to non-controlling interests. For the equivalent period last year, the consolidated net income of \$132.4 million included \$131.5 million of net income attributable to BDC's shareholder and net income of \$0.9 million attributable to non-controlling interests. BDC's consolidated Core net income was \$896.0 million compared to \$197.5 million reported for the same period last year.

For the six months ended September 30, 2021, BDC recorded a consolidated net income of \$1.7 billion compared to a net loss of \$6.6 million recorded for the same period last year. The increase in Core net income was mostly attributable to lower provision for expected credit losses in Financing mainly due to reversal of provisions on performing loans and higher unrealized appreciation of investments for VC and CIP. The results of CAP were also positively impacted by lower provision for expected credit losses and lower operating and administrative expenses.



Consolidated comprehensive income (loss)

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2022	F2021	F2022	F2021
Net income (loss)	879.4	132.4	1,704.7	(6.6)
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on FVOCI assets	(2.5)	(2.5)	(5.3)	6.7
Net change in unrealized gains (losses) on cash flow hedges	(0.2)	(0.4)	(0.5)	(0.6)
Total items that may be reclassified subsequently to net income	(2.7)	(2.9)	(5.8)	6.1
Items that will not be reclassified to net income				
Remeasurements of net defined benefit asset or liability	97.4	(11.0)	115.9	(412.9)
Other comprehensive income (loss)	94.7	(13.9)	110.1	(406.8)
Total comprehensive income (loss)	974.1	118.5	1,814.8	(413.4)
Total comprehensive income (loss) attributable to:				
BDC's shareholder	945.0	117.6	1,786.1	(416.3)
Non-controlling interests	29.1	0.9	28.7	2.9
Total comprehensive income (loss)	974.1	118.5	1,814.8	(413.4)

Three and six months ended September 30

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

BDC recorded consolidated other comprehensive income (OCI) of \$94.7 million and \$110.1 million, respectively, for the second quarter and the six-month period ended September 30, 2021, compared to other comprehensive losses of \$13.9 million and \$406.8 million for the same periods last year. The increase in consolidated other comprehensive income for the six-month period of fiscal 2022 was mainly attributable to a remeasurement gain of \$115.9 million on the net defined benefit asset or liability. This gain was due to higher than forecasted returns on pension plan assets and higher discount rates used to value the net defined benefit liability.



Financing results

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2022	F2021	F2022	F2021
Net interest income	338.6	339.0	683.3	673.0
Fee and other income	5.7	5.9	12.1	11.4
Provision for expected credit losses	5.4	(48.6)	184.4	(380.3)
Net change in unrealized appreciation (depreciation) of investments	(4.1)	(3.9)	(4.3)	(4.5)
Net foreign exchange gains (losses)	3.2	(0.3)	1.4	(0.7)
Net gains (losses) on other financial instruments	0.2	0.1	0.6	0.4
Income before operating and administrative expenses	349.0	292.2	877.5	299.3
Operating and administrative expenses	114.7	83.5	223.8	169.6
Net income from Financing	234.3	208.7	653.7	129.7

As % of average portfolio	Three months ended September 30		Six months ended September 30	
	F2022	F2021	F2022	F2021
Net interest income	4.4	4.5	4.5	4.5
Fee and other income	0.1	0.1	0.1	0.1
Provision for expected credit losses	0.1	(0.6)	1.2	(2.6)
Net change in unrealized appreciation (depreciation) of investments	(0.1)	(0.1)	-	-
Income before operating and administrative expenses	4.5	3.9	5.8	2.0
Operating and administrative expenses	1.5	1.1	1.5	1.1
Net income from Financing	3.0	2.8	4.3	0.9

Three and six months ended September 30

Net income from Financing was \$234.3 million for the second quarter of fiscal 2022 and \$653.7 million for the six-month period ended September 30, 2021, compared to a net income of \$208.7 million and \$129.7 million, respectively, for the same periods last year. The increase of net income from Financing for the three and six-month periods ended September 30, 2021 resulted mainly from lower provision for expected credit losses on the impaired loan portfolio and the reversals of provision for expected credit losses on the performing loan portfolio, partially offset by higher operating and administrative expenses.

Operating and administrative expenses for the quarter and six months ended September 30, 2021 were \$114.7 million and \$223.8 million, higher than the \$83.5 million and \$169.6 million, respectively, in the corresponding periods last year. The increase in operating and administrative expenses was mainly explained by lower employee costs reallocated to the CAP segment. As the economy continued to recover, the volume of activities shifted back to Financing and fewer resources were required to support the CAP COVID-19 initiatives.



Advisory Services results

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2022	F2021	F2022	F2021
Revenue	6.5	4.2	13.5	8.3
Delivery expenses ⁽¹⁾	3.3	2.5	7.2	5.0
Gross operating margin	3.2	1.7	6.3	3.3
Operating and administrative expenses	13.5	13.4	26.5	22.3
Net loss from Advisory Services	(10.3)	(11.7)	(20.2)	(19.0)

⁽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 \$10.3 million was recorded for the second quarter of fiscal 2022, 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, 2021 was \$20.2 million, compared to a net loss of \$19.0 million for the same period last year. The \$1.2 million unfavourable variance for the six-month period ended September 30, 2021 was mainly driven by higher operating and administrative expenses. This was offset by higher gross operating margin mainly resulting from higher revenues.

Revenues amounted to \$13.5 million for the six-month period ended September 30, 2021, higher than the \$8.3 million recorded last year. This fiscal's revenues stood at 97% of the pre-pandemic level which demonstrates that entrepreneurs are recovering from COVID-19 impacts and recognize the value of our services.

Operating and administrative expenses were relatively stable at \$13.5 million for the three-month period compared with the \$13.4 million recorded for the corresponding period of fiscal 2021. Operating and administrative expenses of \$26.5 million for the six-month period ended September 30, 2021, were higher than the \$22.3 million recorded for the corresponding period of fiscal 2021 mainly explained by lower employee costs reallocated to the CAP segment. As the economy continued to recover, resources returned to their pre-pandemic roles after having been assigned to support CAP activities during the first quarter of fiscal 2021.



Growth & Transition Capital results

	Three months ended September 30		Six months ended September 30	
	F2022	F2021	F2022	F2021
(\$ in millions)				
Net revenue on investments	27.8	26.9	68.0	45.8
Net change in unrealized appreciation (depreciation) of investments	51.8	(37.1)	34.4	(38.5)
Net foreign exchange gains (losses)	-	(0.4)	0.3	(1.2)
Income (loss) before operating and administrative expenses	79.6	(10.6)	102.7	6.1
Operating and administrative expenses	8.7	8.8	18.0	16.0
Net income (loss) from Growth & Transition Capital	70.9	(19.4)	84.7	(9.9)
Net income (loss) attributable to:				
BDC's shareholder	65.7	(18.8)	79.6	(9.2)
Non-controlling interests	5.2	(0.6)	5.1	(0.7)
Net income (loss) from Growth & Transition Capital	70.9	(19.4)	84.7	(9.9)

	Three months ended September 30		Six months ended September 30	
	F2022	F2021	F2022	F2021
As % of average portfolio				
Net revenue on investments	10.9	9.6	13.6	8.2
Net change in unrealized appreciation (depreciation) of investments	20.4	(13.2)	6.9	(6.9)
Net foreign exchange gains (losses)	-	(0.1)	0.1	(0.2)
Income (loss) before operating and administrative expenses	31.3	(3.7)	20.6	1.1
Operating and administrative expenses	3.4	3.1	3.6	2.9
Net income (loss) from Growth & Transition Capital	27.9	(6.8)	17.0	(1.8)
Net income (loss) attributable to:				
BDC's shareholder	25.9	(6.6)	16.0	(1.6)
Non-controlling interests	2.0	(0.2)	1.0	(0.2)
Net income (loss) from Growth & Transition Capital	27.9	(6.8)	17.0	(1.8)



Three and six months ended September 30

Net income reached \$70.9 million for the second quarter of fiscal 2022, compared to a net loss of \$19.4 million recorded for the same period last year. For the six months ended September 30, 2021, GTC recorded net income of \$84.7 million, compared to a net loss of \$9.9 million for the same period of fiscal 2021. Results for the three and six-month period ended September 30, 2021, were positively affected by higher net change in unrealized appreciation of investments.

GTC recorded a net change in unrealized appreciation on investments of \$51.8 million in the second quarter of fiscal 2022, and \$34.4 million for the first half of fiscal 2022 compared to a net change in unrealized depreciation on investments of \$37.1 million and \$38.5 million, respectively, during the same periods last year, as detailed below. The \$34.4 million net change in unrealized appreciation on investments for the first six months of fiscal 2022 was mainly explained by a net fair value appreciation of \$41.1 million and the reversal of net fair value appreciation due to realized income and write-offs of \$6.7 million.

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2022	F2021	F2022	F2021
Net fair value appreciation (depreciation)	44.9	(36.7)	41.1	(44.6)
Reversal of net fair value depreciation (appreciation) due to realized income and write-offs	6.9	(0.4)	(6.7)	6.1
Net change in unrealized appreciation (depreciation) of investments	51.8	(37.1)	34.4	(38.5)

Operating and administrative expenses amounted to \$18.0 million for the six-month period ended September 30, 2021, higher than the \$16.0 million recorded last year. The increase was mainly explained by lower employee costs reallocated to the CAP segment. As the economy continued to recover, the volume of activities shifted back to GTC and fewer resources are required to support the CAP COVID-19 initiatives.

Venture Capital results

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2022	F2021	F2022	F2021
Net revenue on investments	68.7	(9.2)	259.5	9.7
Net change in unrealized appreciation (depreciation) of investments	423.5	74.4	489.2	155.3
Net foreign exchange gains (losses)	30.2	(11.9)	17.8	(32.5)
Income before operating and administrative expenses	522.4	53.3	766.5	132.5
Operating and administrative expenses	11.1	8.8	21.2	17.2
Net income from Venture Capital	511.3	44.5	745.3	115.3
Net income attributable to:				
BDC's shareholder	487.4	43.0	721.7	111.7
Non-controlling interests	23.9	1.5	23.6	3.6
Net income from Venture Capital	511.3	44.5	745.3	115.3



Three and six months ended September 30

During the second quarter of fiscal 2022, VC recorded a net income of \$511.3 million, compared to a net income of \$44.5 million for the same period last year. For the six months ended September 30, 2021, VC's net income was \$745.3 million, compared to \$115.3 million for the same period last year. Results for the second quarter and first half of fiscal 2022 were favourably impacted by higher unrealized appreciation on investments, higher net revenue on investments from realized gain on sales of investments and higher net foreign exchange gains.

VC recorded a net change in unrealized appreciation of investments of \$423.5 million for the second quarter and of \$489.2 million for the six months ended September 30, 2021, compared to a net change in unrealized appreciation of \$74.4 million and \$155.3 million, respectively, for the same periods last year, as detailed below.

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2022	F2021	F2022	F2021
Net fair value appreciation (depreciation)	463.7	47.9	662.5	132.0
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	(40.2)	26.5	(173.3)	23.3
Net change in unrealized appreciation (depreciation) of investments	423.5	74.4	489.2	155.3

In the second quarter and six-month period of fiscal 2022, net foreign exchange gains on investments of \$30.2 million and \$17.8 million, respectively, were recorded due to foreign exchange fluctuations in the portfolio in U.S. dollars, compared to net foreign exchange losses on investments of \$11.9 million and \$32.5 million recorded for the corresponding periods last year.

On a year-to-date basis, operating and administrative expenses amounted to \$21.2 million, \$4.0 million higher than those recorded for the same period of fiscal 2022. The increase was mainly explained by lower employee costs reallocated to the CAP segment. As the economy continued to recover, the volume of activities shifted back to VC and less resources are required to support the CAP COVID-19 initiatives.



Capital Incentive Programs results

	Three months ended September 30		Six months ended September 30	
	F2022	F2021	F2022	F2021
(\$ in millions)				
Net revenue on investments	74.7	2.3	77.3	4.3
Net change in unrealized appreciation (depreciation) of investments	15.3	(25.3)	219.4	28.0
Net foreign exchange gains (losses)	1.3	(0.4)	0.9	(0.9)
Income (loss) before operating and administrative expenses	91.3	(23.4)	297.6	31.4
Operating and administrative expenses	1.5	1.2	3.0	2.3
Net income (loss) from Capital Incentive Programs	89.8	(24.6)	294.6	29.1

Three and six months ended September 30

During the second quarter of fiscal 2022, CIP recorded a net income of \$89.8 million, compared to a net loss of \$24.6 million for the same period last year. For the six-month period ended September 30, 2021, CIP recorded net income of \$294.6 million, compared to net income of \$29.1 million for the same period last year.

The strong results for the second quarter and first half of fiscal 2022 were mainly driven by higher net fair value appreciation on investments compared to the equivalent periods last fiscal and higher net revenue on investments from realized gains on sales of investments.

Operating and administrative expenses of \$3.0 million for the six-month period ended September 30, 2021 were higher than those recorded for the same period of fiscal 2021. The increase was mainly explained by lower employee costs reallocated to the CAP segment. As the economy continued to recover, the volume of activities shifted back to CIP and fewer resources were required to support the CAP COVID-19 initiatives.



Credit Availability Program results

(\$ in millions)	Three months ended September 30		Six months ended September 30	
	F2022	F2021	F2022	F2021
Net interest income	29.6	16.0	58.4	20.7
Fee and other income	11.7	4.1	18.6	4.8
Provision for expected credit losses	(47.2)	(46.4)	(108.8)	(185.8)
Net gains (losses) on investments	1.3	-	7.7	-
Net change in unrealized appreciation (depreciation) of investments	(1.3)	-	(5.1)	-
Net foreign exchange gains (losses)	0.3	(0.1)	(0.2)	(0.2)
Loss before operating and administrative expenses	(5.6)	(26.4)	(29.4)	(160.5)
Operating and administrative expenses	11.0	38.7	24.0	91.2
Net loss from Credit Availability Program	(16.6)	(65.1)	(53.4)	(251.7)

Three and six months ended September 30

During the second quarter and the six-month period of fiscal 2022, CAP recorded a net loss of \$16.6 million and \$53.4 million, respectively, compared to a net loss of \$65.1 million and \$251.7 million for the same periods last year. Results in the second quarter and the six-month period of fiscal 2022 were favourably impacted by higher net interest income of \$29.6 million and \$58.4 million respectively, compared to \$16.0 million and \$20.7 million for the same periods last year and higher fee and other income of \$11.7 million and \$18.6 million, respectively, compared to \$4.1 million and \$4.8 million in the second quarter and the six-month period of fiscal 2021. For the quarter and the six-month period ended September 30, 2021, CAP recorded a provision for expected credit losses of \$47.2 million and \$108.8 million, respectively, compared to a provision of \$46.4 million and \$185.8 million for the same periods last year.

Operating and administrative expenses of \$24.0 million for the six months ended September 30, 2021 were lower than the \$91.2 million recorded last year, mostly due to lower salaries and benefits, as the level of resources from other segments assigned to the CAP segment decreased significantly as the economy continued to recover.

Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows

As at September 30, 2021, total BDC assets amounted to \$39.4 billion, an increase of \$2.3 billion from March 31, 2021, due to the \$1.1 billion increase in our net loans portfolio and the \$1.1 billion increase in our investments portfolio. On May 19, 2021, BDC received \$385.0 million in cash proceeds from the issuance of 3,850,000 common shares, which represents a capital injection in support of the Cleantech Practice and Venture Capital Catalyst Initiative. On July 12, 2021, BDC issued 500,000 common shares, which represents a capital injection of \$50.0 million in support of the Indigenous Growth Fund.

At \$32.0 billion, the loans portfolio represented BDC's largest asset (gross portfolio of \$33.2 billion less a \$1.3 billion of allowance for expected credit losses). The gross loans portfolio grew by 2.5% over the six months ended September 30, 2021, reflecting an increase in the level of activity in the Financing and CAP Financing portfolios.



BDC's investment portfolios, which include the subordinate financing and venture capital investments portfolios, stood at \$5.4 billion, compared to \$4.4 billion as at March 31, 2021. The increase of \$1.0 billion was mainly driven by disbursements and net fair value appreciation for VC and CIP investments. The asset-backed securities portfolio stood at \$864.5 million, compared to \$733.3 million as at March 31, 2021.

As at September 30, 2021, the fair value of derivative assets was \$0.7 million and the fair value of derivative liabilities was \$6.6 million. Net derivative fair value decreased by \$8.5 million since March 31, 2021.

As at September 30, 2021, BDC recorded a net defined benefit liability of \$158.0 million for the registered pension plan and the other plans. This represented a decrease of \$115.2 million, compared to the total net defined benefit liability as at March 31, 2021, primarily as a result of remeasurement gains recorded in the first six months of fiscal 2022. 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 \$842.4 million as at September 30, 2021, compared to \$800.5 million as at March 31, 2021. 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. On January 1, 2021, the maximum liquidity level returned to its pre-pandemic level of 15 days.

For the six-month period ended September 30, 2021, operating activities used \$392.6 million, mainly to support the growth of the loans portfolio. Cash flows provided by investing activities amounted to \$10.7 million, reflecting net disbursements for subordinate financing, venture capital investments, and asset-backed-securities, offset by proceeds on sale of venture capital investments. Financing activities provided \$423.7 million in cash flow, mainly as a result of issuance of \$435.0 million in common shares, net change of \$733.8 million in borrowings, offset by dividend payment of \$735.0 million.

As at September 30, 2021, BDC funded its portfolios and liquidities with borrowings of \$19.1 billion and total equity of \$19.5 billion. Borrowings comprised \$13.9 billion in short-term notes and \$5.2 billion in long-term notes.

Capital adequacy

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

BDC's internal capital ratio, excluding CIP and CAP, stood at 116.9% as at September 30, 2021, above its target capital ratio of 110%, compared to 118.7% as at March 31, 2021. The decrease in the internal capital ratio was mainly driven by the \$735.0 million dividend payment made in June 2021, which was partially offset by the reversal of provision for expected credit losses on performing loans and net realized gains from sales in our investment portfolio. 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)

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Management's Responsibility for Financial Information

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

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

Isabelle Hudon
President and Chief Executive Officer

Stefano Lucarelli, CPA, CA
Chief Financial Officer

Montreal, Canada
November 17, 2021



Consolidated Statement of Financial Position

(unaudited)

(in thousands of Canadian dollars)	Notes	September 30, 2021	March 31, 2021
ASSETS			
Cash and cash equivalents		842,368	800,515
Derivative assets		709	4,895
Loans			
Loans, gross carrying amount	6	33,223,275	32,431,181
Less: allowance for expected credit losses	6	(1,267,523)	(1,525,700)
Loans, net of allowance for expected credit losses		31,955,752	30,905,481
Investments			
Asset-backed securities	7	864,481	733,322
Subordinate financing investments	8	1,704,880	1,452,966
Venture capital investments	9	3,683,576	2,978,568
Total investments		6,252,937	5,164,856
Property and equipment		71,118	72,993
Intangible assets		38,618	39,841
Right-of-use-assets		112,330	119,038
Net defined benefit asset		111,815	4,796
Other assets		54,387	35,702
Total assets		39,440,034	37,148,117
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities		113,617	194,807
Derivative liabilities		6,590	2,278
Borrowings			
Short-term notes		13,875,012	13,336,374
Long-term notes		5,229,090	5,036,235
Total borrowings		19,104,102	18,372,609
Lease liabilities			
Short-term lease liabilities		13,911	13,328
Long-term lease liabilities		114,686	119,129
Total lease liabilities		128,597	132,457
Net defined benefit liability		269,846	277,981
Other liabilities		288,795	150,628
Total liabilities		19,911,547	19,130,760
Equity			
Share capital	10	11,946,900	11,511,900
Contributed surplus		27,778	27,778
Retained earnings		7,507,952	6,450,829
Accumulated other comprehensive income		7,726	13,588
Equity attributable to BDC's shareholder		19,490,356	18,004,095
Non-controlling interests		38,131	13,262
Total equity		19,528,487	18,017,357
Total liabilities and equity		39,440,034	37,148,117

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 September 30	
	2021	2020	2021	2020
Interest income	417,816	402,196	835,656	787,346
Interest expense	26,910	22,966	50,243	49,478
Net interest income	390,906	379,230	785,413	737,868
Net realized gains (losses) on investments	139,894	(10,628)	351,275	1,965
Revenue from Advisory Services	6,459	4,227	13,457	8,284
Fee and other income	27,231	16,477	48,060	29,844
Net revenue	564,490	389,306	1,198,205	777,961
Provision for expected credit losses	(41,773)	(95,030)	75,624	(566,097)
Net change in unrealized appreciation (depreciation) of investments	485,184	8,018	733,733	140,264
Net foreign exchange gains (losses)	35,011	(12,959)	20,221	(35,536)
Net gains (losses) on other financial instruments	222	162	578	493
Income before operating and administrative expenses	1,043,134	289,497	2,028,361	317,085
Salaries and benefits	116,927	107,603	231,224	220,376
Premises and equipment	10,316	10,922	20,125	20,652
Other expenses	36,478	38,511	72,280	82,618
Operating and administrative expenses	163,721	157,036	323,629	323,646
Net income (loss)	879,413	132,461	1,704,732	(6,561)
Net income (loss) attributable to:				
BDC's shareholder	850,431	131,515	1,676,190	(9,455)
Non-controlling interests	28,982	946	28,542	2,894
Net income (loss)	879,413	132,461	1,704,732	(6,561)

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 September 30	
	2021	2020	2021	2020
Net income (loss)	879,413	132,461	1,704,732	(6,561)
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	(2,491)	(2,523)	(5,327)	6,653
Net change in unrealized gains (losses) on cash flow hedges	(213)	(340)	(535)	(591)
Total items that may be reclassified subsequently to net income	(2,704)	(2,863)	(5,862)	6,062
Items that will not be reclassified to net income				
Remeasurements of net defined benefit asset or liability	97,391	(11,034)	115,933	(412,912)
Other comprehensive income (loss)	94,687	(13,897)	110,071	(406,850)
Total comprehensive income (loss)	974,100	118,564	1,814,803	(413,411)
Total comprehensive income (loss) attributable to:				
BDC's shareholder	945,118	117,618	1,786,261	(416,305)
Non-controlling interests	28,982	946	28,542	2,894
Total comprehensive income (loss)	974,100	118,564	1,814,803	(413,411)

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, 2021	11,896,900	27,778	6,560,130	8,526	1,904	10,430	18,495,238	7,857	18,503,095
Total comprehensive income (loss)									
Net income			850,431				850,431	28,982	879,413
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on fair value through other comprehensive income assets				(2,491)		(2,491)	(2,491)		(2,491)
Net change in unrealized gains (losses) on cash flow hedges					(213)	(213)	(213)		(213)
Remeasurements of net defined benefit asset or liability			97,391				97,391		97,391
Other comprehensive income (loss)	-	-	97,391	(2,491)	(213)	(2,704)	94,687	-	94,687
Total comprehensive income (loss)	-	-	947,822	(2,491)	(213)	(2,704)	945,118	28,982	974,100
Capital injections from non-controlling interests								1,292	1,292
Issuance of common shares	50,000						50,000		50,000
Transactions with owner, recorded directly in equity	50,000	-	-	-	-	-	50,000	1,292	51,292
Balance as at September 30, 2021	11,946,900	27,778	7,507,952	6,035	1,691	7,726	19,490,356	38,131	19,528,487

(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									
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	-	-	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

⁽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, 2021	11,511,900	27,778	6,450,829	11,362	2,226	13,588	18,004,095	13,262	18,017,357
Total comprehensive income (loss)									
Net income			1,676,190				1,676,190	28,542	1,704,732
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on fair value through other comprehensive income assets				(5,327)		(5,327)	(5,327)		(5,327)
Net change in unrealized gains (losses) on cash flow hedges					(535)	(535)	(535)		(535)
Remeasurements of net defined benefit asset or liability			115,933				115,933		115,933
Other comprehensive income (loss)	-	-	115,933	(5,327)	(535)	(5,862)	110,071	-	110,071
Total comprehensive income (loss)	-	-	1,792,123	(5,327)	(535)	(5,862)	1,786,261	28,542	1,814,803
Dividends on common shares			(735,000)				(735,000)		(735,000)
Distributions to non-controlling interests								(4,981)	(4,981)
Capital injections from non-controlling interests								1,308	1,308
Issuance of common shares	435,000						435,000		435,000
Transactions with owner, recorded directly in equity	435,000	-	(735,000)	-	-	-	(300,000)	(3,673)	(303,673)
Balance as at September 30, 2021	11,946,900	27,778	7,507,952	6,035	1,691	7,726	19,490,356	38,131	19,528,487
(in thousands of Canadian dollars)									
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

⁽¹⁾Fair value through other comprehensive income assets

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



Consolidated Statement of Cash Flows

(unaudited)

(in thousands of Canadian dollars)	Three months ended September 30		Six months ended September 30	
	2021	2020	2021	2020
Operating activities				
Net income (loss)	879,413	132,461	1,704,732	(6,561)
Adjustments to determine net cash flows				
Interest income	(417,816)	(402,196)	(835,656)	(787,346)
Interest expense	26,449	22,438	49,307	48,411
Interest on lease liabilities	461	528	936	1,067
Net realized losses (gains) on investments	(139,894)	10,628	(351,275)	(1,965)
Provision for expected credit losses	41,773	95,030	(75,624)	566,097
Net change in unrealized depreciation (appreciation) of investments	(485,184)	(8,018)	(733,733)	(140,264)
Net unrealized foreign exchange losses (gains)	(61,280)	32,637	(29,066)	62,460
Net unrealized losses (gains) on other financial instruments	(8)	177	(43)	98
Defined benefits funding below (in excess of) amounts expensed	(2,440)	7,603	779	7,379
Depreciation of property and equipment, and amortization of intangible assets	4,829	5,424	10,633	10,593
Depreciation of right-of-use assets	3,519	3,895	7,050	7,768
Other	(4,415)	(7,853)	(689)	(14,756)
Interest expense paid	(28,498)	(24,202)	(49,565)	(52,134)
Interest income received	399,332	386,671	808,570	759,151
Changes in operating assets and liabilities				
Net change in loans	(387,413)	(1,026,676)	(805,407)	(3,033,398)
Net change in accounts payable and accrued liabilities	(30,263)	(36,448)	(81,191)	50,096
Net change in other assets and other liabilities	(21,038)	1,899	(12,324)	(22,960)
Net cash flows provided (used) by operating activities	(222,473)	(806,002)	(392,566)	(2,546,264)
Investing activities				
Disbursements for asset-backed securities	(123,693)	(25,857)	(335,601)	(94,802)
Repayments and proceeds on sale of asset-backed securities	100,789	88,307	198,923	163,565
Disbursements for subordinate financing investments	(216,422)	(93,458)	(320,342)	(187,340)
Repayments of subordinate financing investments	216,826	53,994	316,966	101,656
Disbursements for venture capital investments	(94,907)	(104,268)	(227,105)	(247,421)
Proceeds on sale of venture capital investments	102,174	28,041	385,418	61,612
Acquisition of property and equipment	(1,413)	(3,933)	(4,192)	(6,556)
Acquisition of intangible assets	(2,118)	(2,287)	(3,343)	(5,445)
Net cash flows provided (used) by investing activities	(18,764)	(59,461)	10,724	(214,731)
Financing activities				
Net change in short-term notes	92,000	(3,439,000)	538,000	(5,341,855)
Issue of long-term notes	247,000	-	507,000	495,000
Repayment of long-term notes	(211,193)	-	(311,193)	-
Distributions to non-controlling interests	-	(107)	(4,981)	(144)
Capital injections from non-controlling interests	1,292	-	1,308	11
Issuance of common shares	50,000	-	435,000	7,503,000
Dividends paid on common shares	-	-	(735,000)	-
Payment of lease liabilities	(3,285)	(3,628)	(6,439)	(6,383)
Net cash flows provided (used) by financing activities	175,814	(3,442,735)	423,695	2,649,629
Net increase (decrease) in cash and cash equivalents	(65,423)	(4,308,198)	41,853	(111,366)
Cash and cash equivalents at beginning of period	907,791	6,018,229	800,515	1,821,397
Cash and cash equivalents at end of period	842,368	1,710,031	842,368	1,710,031

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

Statement of compliance

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. They were approved for issue by the Board of Directors on November 17, 2021.

Basis of presentation and measurement

BDC's condensed quarterly Consolidated Financial Statements have been prepared on a historical cost basis, except for the following:

- financial assets and financial liabilities measured at fair value through profit or loss (FVTPL), financial assets measured at fair value through other comprehensive income (FVOCI), and derivative financial instruments measured at fair value; and
- the net defined benefit asset or liability in respect of post-employment benefits has been recognized as the present value of the defined benefit obligation less the fair value of plan assets.

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

Basis of consolidation

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



The condensed quarterly Consolidated Financial Statements of BDC comprise the financial statements of the parent entity and the consolidated financial statements of the subsidiaries referred to below as of September 30, 2021 and March 31, 2021. The financial statements of the subsidiaries are prepared using uniform accounting policies and valuation methods for similar transactions.

Subsidiaries

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

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

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

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

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

Go Capital L.P.

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

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

AlterInvest II Fund L.P.

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

Non-controlling interests

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



Associates

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

3. Significant accounting policies

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

Financial instruments

Recognition, derecognition and measurement of financial instruments

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

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

Financial instruments are recognized and derecognized using settlement date accounting.

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

Classification of financial instruments

Financial assets

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

- amortized cost;
- fair value through profit or loss (FVTPL); or
- fair value through other comprehensive income (FVOCI).

Business model assessment

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

- Financial assets held solely to collect contractual cash flows;
- Financial assets held to both collect contractual cash flows and sell the assets;
- Financial assets that are managed on a fair value basis.



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

- the investment strategy for holding or selling the assets in the portfolio and the risks that affect the performance of the business model;
- the reports provided to BDC's management and key indicators used to assess the performance of the portfolio;
- the portfolio managers' compensation (i.e., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected);
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and the expectations about future sales activity.

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

All other financial assets are classified as measured at FVTPL.

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

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

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

- contingent events that change the amount and timing of cash flows;
- leveraged features;
- prepayment and extension terms;
- terms that limit BDC's claim to cash flows from specified assets;
- features that modify consideration of the time value of money.



Financial liabilities

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

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

Subsequent measurement of financial instruments

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

Financial instruments classified at amortized cost

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

Financial instruments classified at fair value through profit or loss

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

- net change in unrealized appreciation or depreciation of investments, or net foreign exchange gains or losses, when related to asset-backed securities, subordinate financing and venture capital investments; or
- net gains or losses on other financial instruments when related to derivatives.

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

- net realized gains or losses on investments when related to asset-backed securities, subordinate financing and venture capital investments; or
- net gains or losses on other financial instruments when related to derivatives.

Financial instruments classified at fair value through other comprehensive income

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

Financial liabilities designated at fair value through profit or loss

Subsequent to initial recognition, financial liabilities designated as at fair value through profit or loss are measured at fair value. The variation of unrealized gains or losses and gains and losses upon the sale, disposal or write-off of these financial instruments are recognized in the Consolidated Statement of Income (Loss) as net gains or losses on other financial instruments. Changes in the fair value of these financial liabilities that are attributable to changes in BDC's own credit risk are recognized in OCI unless such treatment would create or enlarge an accounting mismatch in profit or loss in which case, the effect of the changes in credit risk is recorded in the Consolidated Statement of Income (Loss).

Cash flow hedges

BDC elected to de-designate the hedging instruments effective on the last day of fiscal 2018. The amounts recognized in other comprehensive income (loss) at March 31, 2018 will be recycled to the Consolidated Statement of Income (Loss) in the



periods where the hedged items affect net income. Derivatives held for risk management are measured at fair value through profit or loss in the Consolidated Statement of Income (Loss) starting April 1, 2018.

Impairment

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

- Cash and cash equivalents;
- Loans;
- Investment-grade asset-backed securities;
- Accounts receivable from advisory clients;
- Loans and asset-backed securities commitments;
- Loan guarantees.

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

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

- i. Stage 1—12-month ECL: The loss allowance is measured at an amount equal to 12-month expected credit losses if there is no significant increase in credit risk since initial recognition;
- ii. Stage 2—Lifetime ECL: The loss allowance is measured at an amount equal to the lifetime expected credit losses if there is a significant increase in credit risk since initial recognition and the loan is not considered credit-impaired;
- iii. Stage 3—Lifetime ECL: The loss allowance is measured as the difference between the carrying amount and present value of its estimated future cash flow if the loan is considered credit-impaired.

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

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

Definition of default

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

Write-off policy

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



Loan modifications

To provide financial relief to our clients affected by the COVID-19 pandemic, BDC offered its clients certain relief programs, such as principal and interest postponement options. These modifications did not result in derecognition events, and therefore, no modification losses have been recorded.

Major types of financial instruments

Cash equivalents

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

Cash equivalents are monitored daily to determine the counterparty credit risk using external credit rating agencies. As at September 30, 2021, and March 31, 2021, cash equivalents are considered to have a low credit risk based on the counterparties' external credit ratings of A to AA. The low credit risk simplification is used and the impairment on cash equivalents is calculated based on 12-month expected credit losses.

Loans

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

Allowance for expected credit losses

BDC reviews its loan portfolio on an individual asset basis to assess credit risk using the three-stage IFRS 9 impairment model and recognizes ECLs in the provision for expected credit losses in the Consolidated Statement of Income (Loss) and the allowance for expected credit losses in the Consolidated Statement of Financial Position. When a loan is considered impaired, ECLs are measured as the difference between the carrying amount of the loan and the present value of its estimated future cash flows discounted using (i) the effective interest rate of the loan for fixed-rate loans or (ii) the rate at time of impairment for floating-rate loans.

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

Off-balance sheet items subject to an impairment assessment include loan commitments and loan guarantees. The allowance for expected credit losses related to loan commitments and loan guarantees is included in the other liabilities in the Consolidated Statement of Financial Position.

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

Refer to Note 4— *Significant accounting judgements, estimates and assumptions* for more information regarding the criteria used to determine the amount of the allowance.



Asset-backed securities

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

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

The fair value of ABS is calculated using forecasted cash flows and an estimated yield curve that is derived from the Canadian government yield curve and ABS spread for comparable transactions. The result is adjusted to reflect the risk of the underlying assets and deal structure.

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

ABS credit risk is monitored quarterly using internal credit risk rating methodology. As at September 30, 2021, and March 31, 2021, all of the investment-grade senior notes are considered low credit risk, and therefore the low credit risk simplification is used and the impairment is calculated based on 12-month expected credit losses.

Refer to Note 4— *Significant accounting judgements, estimates and assumptions* for more information regarding the criteria used to determine whether an impairment has occurred.

Subordinate financing and venture capital investments

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

BDC's valuation process for fair value measurement of subordinate financing and venture capital investments was derived from the International Private Equity and Venture Capital Valuation Guidelines. Based on the type of investments being valued, BDC uses (i) market-based methodologies, such as the quoted share price or the price of recent similar investments; (ii) discounted earnings or cash flow approaches; or (iii) liquidation or asset-based methods. These fair values are updated at least twice a year by internal valuers and are then reviewed by a valuation committee, which includes an external member who is a chartered business valuator. Venture Capital investments also include fund-of-fund transactions that provide for certain other limited partners to receive a preferred return on the initial cost of their investment, later timing of cash calls and preference in the distributions. The impact of these terms and conditions is taken into account in the fair value calculation by applying an adjustment to the attributed net asset value of each fund. The fair value of fund-of-fund investments is determined using the net assets provided by the administrator or by the general partner, unless there is an indication that fair value differs from the net asset value provided. The impact of these terms and conditions is taken into account in the fair value calculation by applying an adjustment to the attributed net asset value of each fund.

Derivatives

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

All BDC derivatives are over-the-counter and are mainly composed of swaps and foreign exchange forwards. The fair value of swaps is determined using pricing models that take into account current market and contractual prices of the underlying instrument, as well as time value, the yield curve, or volatility factors underlying the position and embedded options. The



fair value of foreign exchange forwards is calculated by discounting the notional amount using the yield curves of the respective currencies. Inputs to both these calculations are market-observable data sourced from leading inter-dealer brokers, together with industry-standard valuation models for estimating fair value.

BDC holds hybrid financial instruments that contain a non-derivative host contract and an embedded derivative that is separable and significantly modifies the cash flows that would otherwise be required under the contract. The cash flows of the hybrid instruments vary in a way that is similar to a stand-alone derivative. If the host contract is a financial liability, embedded derivatives that are not closely related to the host contract must be separated and classified as derivatives at fair value through profit or loss unless the host is designated as at fair value through profit or loss. Hybrid contracts with financial asset hosts within the scope of IFRS 9 are no longer required to be separated, instead they are measured at FVTPL based on the assessment of the cash flows of the entire hybrid financial instruments as per the Classification of financial instruments section of this note.

As at September 30, 2021, and March 31, 2021, BDC had no embedded derivatives that needed to be separated from a host contract because the entire instrument was designated at fair value through profit or loss.

Borrowings

Short-term notes are measured at amortized cost.

BDC has two types of long-term notes: unstructured and structured. Unstructured long-term notes are recorded at amortized cost. Structured notes are notes for which interest or principal, or both, are linked to fluctuations in currency rates, swap rates and other market references. These structured notes are designated as at fair value through profit or loss on initial recognition because BDC holds related derivatives at fair value through profit or loss, and designation therefore eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The fair value of structured notes is determined by using observable market data, together with recognized valuation techniques. Observable market data are sourced from leading inter-dealer brokers and include interest rates, foreign exchange rates and other market references.

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

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

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

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

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

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



Revenue from Advisory Services

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

Property and equipment and intangible assets

Property and equipment and intangible assets are carried at cost less accumulated depreciation, accumulated amortization and accumulated impairment losses, if any.

The cost of an item of property and equipment includes its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to operate in the manner intended by management.

Property and equipment are depreciated using the straight-line method over the estimated useful life of the asset, as follows:

	Estimated useful life	Recorded in Consolidated Statement of Income (Loss) as
Computer and telecommunications equipment	5 years	Other expenses
Furniture, fixtures and equipment	10 years	Premises and equipment
Leasehold improvements	Lease term	Premises and equipment

Intangible assets primarily comprise systems and software applications, the cost of which includes the purchase price plus any costs incurred to prepare them for their intended internal use. Intangible assets have finite lives and are amortized on a straight-line basis over their estimated useful economic lives, which range from three to seven years. Costs related to projects in progress are not subject to amortization until the related intangible asset is available for use. Amortization expense is included in other expenses in the Consolidated Statement of Income (Loss).

For internally developed intangible assets, expenditures on research (or on the research phase of an internal project) are recognized as an expense when incurred.

An intangible asset arising from development (or from the development phase of an internal project) will be recognized if, and only if, all of the following can be demonstrated:

- (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (b) the intention to complete the intangible asset and use or sell it;
- (c) the ability to use or sell the intangible asset;
- (d) how the intangible asset will generate probable future economic benefits;
- (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- (f) the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The cost of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria above. If the above criteria are not met, development costs are recognized as expenses during the fiscal year in which they were incurred.

The residual values, depreciation and amortization methods, as well as useful lives of items of property and equipment and intangible assets, are reviewed and adjusted if appropriate at least at each financial reporting date.



These assets are also reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Irrespective of whether there is any indication of impairment, an impairment test is also performed annually for projects in progress related to intangible assets. When impairment tests indicate that the carrying amount of an asset (or group of assets) is greater than its estimated recoverable amount, the carrying amount is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Leases

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

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- BDC has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- BDC has the right to direct the use of the asset. BDC has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

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

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

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

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

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

Short-term leases and leases of low-value assets

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



Net defined benefit asset or liability

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

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

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

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

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

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

Equity attributable to BDC's shareholder

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

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

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

Translation of foreign currencies

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



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

Segmented information

BDC has the following operating segments, which are based on differences in products and services and government supported initiatives: Financing, Advisory Services, Growth & Transition Capital, Venture Capital, Capital Incentive Programs and Credit Availability Program. Over the course of fiscal 2021, there was a change in the internal reporting structure that impacted the results and portfolios of the operating segments, see Note 14 – *Comparative information* for more detail.

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

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

4.

Significant accounting judgements, estimates and assumptions

The preparation of the condensed quarterly Consolidated Financial Statements in accordance with IFRS requires management to make judgements and use estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

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

The global pandemic related to an outbreak of COVID-19 has cast additional uncertainty on the assumptions used by management in making its judgments and estimates. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is difficult to reliably estimate the length and severity of these developments and the impact on the financial results and condition of BDC in future periods. Given that the full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on the global economy and BDC's business is uncertain and not predictable at this time, there is a higher level of uncertainty with respect to management's judgments and estimates.

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



Allowance for expected credit losses

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

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

Impaired loans, loan commitments and loan guarantees, are considered in Stage 3. All other loans, loan commitments and loan guarantees are either considered in Stage 1 or in Stage 2 if a significant increase in credit risk has occurred. If the increase in credit risk is no longer considered significant, loans, loan commitments and loan guarantees, will move back to Stage 1 and if the loans, loan commitments and loan guarantees, are no longer considered impaired, they will move back to Stage 1 or 2. Assumptions used to determine whether there is a significant increase in credit risk include a significant increase in the expected lifetime probability of default since origination, loans, loan commitments and loan guarantees, that are on the watchlist and loans that are 30 days past due. To support our clients who were experiencing financial difficulties resulting from the COVID-19 pandemic, BDC offered certain relief programs. Utilization of these relief programs does not systematically in and of itself trigger a significant increase in credit risk.

Expert credit judgment may also be applied, as required, to account for loans that have experienced a significant increase in risk. The ECL is calculated for each exposure, taking into account the financial instrument's forward-looking probability of default, loss given default and exposure at default. IFRS 9 requires current and expected economic conditions for multiple scenarios to be taken into account in determining whether there has been a significant increase in credit risk and in calculating the amount of expected losses. BDC considers three forward-looking scenarios that are probability weighted. The "base case" represents the most likely scenario under current and forward-looking economic conditions, whereas the "upside" and "downside" differ relative to the base case based on plausible economic conditions. Management judgement is required in the application of forward-looking information. Since March 2020, the Coronavirus outbreak evolved rapidly resulting in an economic crisis. Entrepreneurs have been experiencing challenges due to business closures, higher unemployment rates and social distancing. Given the high level of uncertainty that remains since the beginning of the pandemic, significant judgement was made in determining the allowance for expected credit losses. Actual results may differ materially from those recorded on September 30, 2021 and March 31, 2021.

Changes in these assumptions, or the use of other reasonable judgements, can materially affect the allowance level. Refer to Note 6—*Loans*, for more information on the allowance for expected credit losses.

Impairment of assets at fair value through other comprehensive income

A three-stage impairment model incorporating inputs such as internal risk ratings and industry defaults statistics is used to estimate the expected credit losses on investment-grade asset-backed securities.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the Consolidated Statement of Financial Position cannot be derived from active markets (i.e., from quoted market prices or dealer price quotations), it is determined using valuation techniques, including discounted cash flow models.

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



These judgements include considerations of inputs such as the discount rate, the expected rate of return by level of risk and the weighted forecast of cash flows. Changes to these inputs could affect the reported fair value of financial instruments. Refer to Note 3—*Significant accounting policies* for more information about the valuation techniques used for each type of financial instrument and to Note 5—*Fair value of financial instruments* for additional information on fair value hierarchy levels.

BDC's valuation process considered the impacts of COVID-19 on forecasts, workforce, supply chain, liquidity level and the ability to obtain financing. The process includes management adjustments based on factors such as the competitive landscape, quality, and financial ability of the stakeholders to support the business, specific business fundamentals and the rank of financial instruments.

Net defined benefit asset or liability

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

Consolidation

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

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, 2021
	Level 1	Level 2	Level 3	Total fair value
Assets				
Derivative assets	-	709	-	709
Asset-backed securities	-	864,481	-	864,481
Subordinate financing investments	159,256	-	1,545,624	1,704,880
Venture capital investments	63,496	-	3,620,080	3,683,576
	222,752	865,190	5,165,704	6,253,646
Liabilities				
Derivative liabilities	-	6,590	-	6,590
Long-term notes designated as fair value through profit or loss	-	38,631	-	38,631
	-	45,221	-	45,221
				March 31, 2021
	Fair value measurements using			Total fair value
	Level 1	Level 2	Level 3	Total fair value
Assets				
Derivative assets	-	4,895	-	4,895
Asset-backed securities	-	733,322	-	733,322
Subordinate financing investments	88,764	-	1,364,202	1,452,966
Venture capital investments	62,955	-	2,915,613	2,978,568
	151,719	738,217	4,279,815	5,169,751
Liabilities				
Derivative liabilities	-	2,278	-	2,278
Long-term notes designated as fair value through profit or loss	-	127,662	-	127,662
	-	129,940	-	129,940

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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, 2021	1,364,202	2,915,613	4,279,815
Net realized gains (losses) on investments	43,092	236,817	279,909
Net change in unrealized appreciation (depreciation) of investments	77,334	624,981	702,315
Net unrealized foreign exchange gains (losses) on investments	-	16,174	16,174
Disbursements for investments	314,010	226,472	540,482
Repayments of investments and other	(236,004)	(372,815)	(608,819)
Transfers from level 3 to level 1	(17,010)	(27,162)	(44,172)
Fair value as at September 30, 2021	1,545,624	3,620,080	5,165,704

	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	22,070	136,580	158,650
Net change in unrealized appreciation (depreciation) of investments	88,248	950,963	1,039,211
Net unrealized foreign exchange gains (losses) on investments	-	(69,809)	(69,809)
Disbursements for investments	370,729	512,951	883,680
Repayments of investments and other	(350,272)	(270,293)	(620,565)
Transfers from level 3 to level 1	-	(21,601)	(21,601)
Fair value as at March 31, 2021	1,364,202	2,915,613	4,279,815



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	294,836	5,935,046	25,789,863	32,019,745	(871,867)	31,147,878
Impaired	35,486	176,863	991,181	1,203,530	(395,656)	807,874
Loans as at September 30, 2021	330,322	6,111,909	26,781,044	33,223,275	(1,267,523)	31,955,752

	Within 1 year	1 to 5 years	Over 5 years	Total gross carrying amount	Allowance for expected credit losses	Total net carrying amount
Performing	419,926	5,669,005	25,192,018	31,280,949	(1,111,410)	30,169,539
Impaired	28,146	189,580	932,506	1,150,232	(414,290)	735,942
Loans as at March 31, 2021	448,072	5,858,585	26,124,524	32,431,181	(1,525,700)	30,905,481

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, 2021	395,895	715,515	414,290	1,525,700
Provision for expected credit losses				
Transfer to Stage 1 ⁽¹⁾	164,072	(161,794)	(2,278)	-
Transfer to Stage 2 ⁽¹⁾	(79,877)	113,028	(33,151)	-
Transfer to Stage 3 ⁽¹⁾	(631)	(34,723)	35,354	-
Net remeasurement of allowance for expected credit losses ⁽²⁾	(220,179)	(106,080)	35,688	(290,571)
Financial assets that have been fully repaid	(20,573)	(31,886)	(18,772)	(71,231)
New financial assets originated	119,523	19,335	-	138,858
Write-offs	-	-	(53,502)	(53,502)
Recoveries	-	-	15,395	15,395
Foreign exchange and other movements	218	24	2,632	2,874
Balance as at September 30, 2021	358,448	513,419	395,656	1,267,523

	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⁾	264,681	(264,139)	(542)	-
Transfer to Stage 2 ⁽¹⁾	(293,043)	325,317	(32,274)	-
Transfer to Stage 3 ⁽¹⁾	(1,953)	(68,231)	70,184	-
Net remeasurement of allowance for expected credit losses ⁽²⁾	(107,430)	223,485	126,439	242,494
Financial assets that have been fully repaid	(37,459)	(52,464)	(54,329)	(144,252)
New financial assets originated	328,420	72,241	-	400,661
Write-offs	-	-	(129,142)	(129,142)
Recoveries	-	-	21,419	21,419
Foreign exchange and other movements	(27,570)	(34,950)	(2,133)	(64,653)
Balance as at March 31, 2021	395,895	715,515	414,290	1,525,700

⁽¹⁾ Provides the cumulative change from the previous month's allowance for expected credit losses due to transfers between stages prior to remeasurements.

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



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 \$3,594,033 as at September 30, 2021 (\$925,222 at fixed rates; \$2,668,811 at floating rates). The weighted average effective interest rate was 3.83% on loan commitments (3.89% as at March 31, 2021).

Geographic distribution	September 30, 2021		March 31, 2021	
	Outstanding	Commitments	Outstanding	Commitments
Newfoundland and Labrador	869,835	37,125	869,334	41,447
Prince Edward Island	85,550	5,234	75,018	7,742
Nova Scotia	691,146	38,482	724,909	35,060
New Brunswick	532,076	37,949	520,292	40,245
Quebec	10,435,887	1,310,987	10,253,238	928,116
Ontario	9,131,408	971,390	9,038,576	821,886
Manitoba	902,828	90,582	861,037	81,165
Saskatchewan	904,628	69,200	865,988	65,576
Alberta	4,757,215	482,297	4,666,837	498,183
British Columbia	4,713,582	529,856	4,363,207	528,237
Yukon	118,057	6,557	115,611	1,155
Northwest Territories and Nunavut	81,063	14,374	77,134	16,227
Total loans outstanding⁽¹⁾	33,223,275	3,594,033	32,431,181	3,065,039

Industry sector	September 30, 2021		March 31, 2021	
	Outstanding	Commitments	Outstanding	Commitments
Manufacturing	7,172,981	870,394	7,047,791	788,282
Wholesale and retail trade	6,427,131	823,206	6,221,719	570,210
Service industries	5,159,707	509,064	4,976,814	460,518
Tourism	3,699,120	151,737	3,742,182	156,433
Commercial properties	3,389,687	221,104	3,290,244	151,264
Construction	2,925,202	402,244	2,843,645	356,322
Transportation and storage	2,001,919	234,402	1,889,402	206,829
Resources	1,341,961	205,890	1,340,224	231,612
Other	1,105,567	175,992	1,079,160	143,569
Total loans outstanding⁽¹⁾	33,223,275	3,594,033	32,431,181	3,065,039

⁽¹⁾ Loan commitments included \$3,558,964 in the Financing segment, and \$35,069 in the Credit Availability Program segment as at September 30, 2021 (\$2,870,540, and \$194,499 respectively, as at March 31, 2021).



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, 2021	57,007	24,161	-	81,168
Provision for expected credit losses				
Transfer to Stage 1 ⁽¹⁾	5,112	(5,112)	-	-
Transfer to Stage 2 ⁽¹⁾	(6,291)	6,291	-	-
Transfer to Stage 3 ⁽¹⁾	-	-	-	-
Net remeasurement of the allowance for expected credit losses ⁽²⁾	(10,884)	2,523	-	(8,361)
Net increase (decrease) in commitments	9,691	(17,176)	-	(7,485)
Foreign exchange and other movements	(42)	(117)	-	(159)
Balance as at September 30, 2021	54,593	10,570	-	65,163

	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
Provision for expected credit losses				
Transfer to Stage 1 ⁽¹⁾	13,817	(13,817)	-	-
Transfer to Stage 2 ⁽¹⁾	(35,229)	35,229	-	-
Net remeasurement of the allowance for expected credit losses ⁽²⁾	11,911	21,834	-	33,745
Net increase (decrease) in commitments	26,381	(43,124)	-	(16,743)
Foreign exchange and other movements	(1,651)	(1,242)	-	(2,893)
Balance as at March 31, 2021	57,007	24,161	-	81,168

(1) Provides the cumulative change from the previous month's allowance for expected credit losses on commitments due to transfers between stages prior to remeasurements.

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

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, 2021 or March 31, 2021. No allowances for expected credit losses were recorded for disbursed and undisbursed ABS at fair value through other comprehensive income as at September 30, 2021 or March 31, 2021.

	September 30, 2021	March 31, 2021
Fair value through other comprehensive income		
Principal amount	847,251	711,884
Cumulative fair value appreciation (depreciation)	6,035	11,362
Carrying value	853,286	723,246
Yield	1.91%	2.27%
Fair value through profit or loss		
Principal amount	11,059	9,863
Cumulative fair value appreciation (depreciation)	136	213
Carrying value	11,195	10,076
Yield	6.81%	7.01%
Asset-backed securities	864,481	733,322

Committed amounts of authorized asset-backed securities were \$537,356 as at September 30, 2021 (\$624,037 as at March 31, 2021).



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, 2021	132,932	1,011,680	421,790	1,566,402	1,704,880
As at March 31, 2021	150,441	974,871	320,979	1,446,291	1,452,966

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 \$172,283 as at September 30, 2021 (\$84,289 at fixed rates; \$87,994 at floating rates). The weighted average effective interest rate was 8.35% on subordinate financing commitments (8.5% as at March 31, 2021), excluding non-interest return.

Geographic distribution	September 30, 2021			March 31, 2021		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Newfoundland and Labrador	15,049	21,890	7,375	16,371	21,563	7,525
Prince Edward Island	6,381	6,588	-	9,669	10,300	-
Nova Scotia	23,022	23,922	2,000	46,832	27,049	4,000
New Brunswick	17,636	17,538	-	15,979	15,657	-
Quebec	657,548	521,409	36,436	489,770	450,753	26,656
Ontario	528,654	534,094	85,472	464,186	503,659	37,290
Manitoba	6,098	8,232	-	6,801	8,532	-
Saskatchewan	57,829	55,566	1,350	47,842	53,696	2,100
Alberta	193,684	219,216	25,350	158,724	193,422	27,550
British Columbia	197,416	156,380	14,300	194,661	159,453	7,750
Yukon	-	-	-	225	224	-
Northwest Territories and Nunavut	1,563	1,567	-	1,906	1,983	-
Subordinate financing investments⁽¹⁾	1,704,880	1,566,402	172,283	1,452,966	1,446,291	112,871

Industry sector	September 30, 2021			March 31, 2021		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Manufacturing	632,795	548,424	34,757	478,654	490,121	17,723
Service industries	449,492	392,234	47,621	411,798	389,167	37,145
Wholesale and retail trade	195,753	179,375	17,376	190,786	177,140	10,750
Resources	155,348	171,367	12,500	128,252	142,449	26,300
Information industries	151,963	153,272	46,479	123,367	118,257	10,603
Construction	45,137	47,528	11,650	45,822	48,163	7,650
Transportation and storage	49,311	50,718	1,900	36,751	47,578	2,700
Educational services	8,572	8,446	-	12,638	12,417	-
Tourism	7,297	8,618	-	6,288	9,980	-
Other	9,212	6,420	-	18,610	11,019	-
Subordinate financing investments⁽¹⁾	1,704,880	1,566,402	172,283	1,452,966	1,446,291	112,871

⁽¹⁾ Subordinate financing commitments included \$3,302 in the Financing segment, \$107,196 in the Growth & Transition Capital segment, \$14,062 in the Venture Capital segment \$46,823 in the Capital Incentive Programs segment and \$900 in the Credit Availability Program segment as at September 30, 2021 (\$3,455, \$56,251, \$5,557, \$42,783 and \$4,825, respectively, as at March 31, 2021).



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, 2021			March 31, 2021		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Direct investments	1,734,481	922,718	17,795	1,397,978	851,925	49,240
Indirect investments in funds ⁽¹⁾	1,949,095	1,000,094	878,594	1,580,590	985,162	876,138
Venture capital investments ⁽²⁾	3,683,576	1,922,812	896,389	2,978,568	1,837,087	925,378

⁽¹⁾ As at September 30, 2021, BDC has invested in 105 funds through its VC segment and 24 funds through its CIP segment (100 and 24 funds, respectively, as at March 31, 2021).

⁽²⁾ Venture Capital commitments included \$510,014 in the Venture Capital segment, \$380,882 in the Capital Incentive Programs segment, and \$5,493 in the Credit Availability Program segment as at September 30, 2021 (\$473,575, \$432,903, and \$18,900, respectively, as at March 31, 2021).

Concentrations of total venture capital investments and commitments

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

Industry sector	September 30, 2021			March 31, 2021		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Information technology	929,356	427,361	11,499	835,203	418,072	23,830
Communications	182,578	120,320	615	141,868	100,473	10,031
Industrial	121,434	60,774	-	42,238	40,013	2,400
Electronics	90,387	97,165	-	75,285	89,115	8,000
Biotechnology and pharmacology	67,215	61,480	4,232	63,498	58,480	4,232
Medical and health	58,417	53,813	952	58,198	45,062	250
Energy	29,242	20,582	497	29,209	20,582	497
Other	255,852	81,223	-	152,479	80,128	-
Total direct investments	1,734,481	922,718	17,795	1,397,978	851,925	49,240

10. Share capital

An unlimited number of common shares, having a par value of \$100 each, is authorized. As at September 30, 2021, there were 119,469,000 common shares outstanding (115,119,000 as at March 31, 2021).

On May 19, 2021, BDC issued 3,850,000 common shares for cash proceeds of \$385 million, which represents a capital injection in support of the Cleantech Practice and Venture Capital Catalyst Initiative.

On July 12, 2021, BDC issued 500,000 common shares, which represents a capital injection of \$50 million in support of the Indigenous Growth Fund.



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.

Effective October 1, 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 six months ended September 30, 2021 and the year ended March 31, 2021, 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 incorporates changes in both the available capital definition as well as in the required capital quantification. The new framework was 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 six business lines: Financing, Advisory Services, Growth & Transition Capital, Venture Capital (VC), Capital Incentive Programs (CIP) and Credit Availability Program (CAP). Each business line offers different products and services and is managed separately based on BDC's management and internal reporting structure.

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

- **Financing:** provides secured, partially secured and unsecured loans with a focus on small and medium-sized enterprises across Canada. It also purchases investments in asset-backed securities through the Funding Platform for Independent Lenders (F-PIL). These securities are backed by vehicle and equipment loans and leases, as well as dealer floor plan loans.
- **Advisory Services:** 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:** includes investments in Venture capital (VC), Growth Equity (GE) and Intellectual Property (IP). Venture capital segment provides investments to cover every stage of a technology-based company's development cycle, from seed funding to expansion. Investments in VC are 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. GE are equity investments to support the growth of high-potential companies across Canada. With the first Growth Equity Fund reaching its total capital commitment target of \$250.0 million, BDC will launch a follow-on fund, the Growth Equity Fund II, which will maintain a focus on mid-size business and target a broader range of companies. Through its IP Fund, BDC launched a \$160.0 million Fund that provides more targeted financing to companies that are rich in intellectual property. It focusses on such sectors as advanced manufacturing, media and telecom, med-tech and digital health and information technology. Companies will be able to access customized, patient capital that recognizes IP as a core asset that must be valued and protected.
- **Capital Incentive Programs** (previously 2 separate segments, Venture Capital Incentive Programs and Cleantech Practice): includes Venture Capital Action Plan (VCAP), Venture Capital Catalyst Initiative (VCCI), Cleantech Practice and Indigenous Growth Fund (IGF). 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. Through a \$600.0 million envelope entrusted by the federal government, Cleantech Practice provides subordinate financing and venture capital investments to promising clean technology firms to help build globally competitive and commercially sustainable Canadian cleantech firms.
- **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 government-led initiatives 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 Canadian banks and credit unions, Highly Affected Sectors Credit Availability Program under which, financial institutions provide loans up to \$1 million, 100% guaranteed by BDC, 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.

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.

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

	Three months ended September 30, 2021						
	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Capital Incentive Programs	Credit Availability Program
Interest income	417,816	363,247	-	21,511	155	2,237	30,666
Interest expense	26,910	24,686	-	1,199	5	-	1,020
Net interest income	390,906	338,561	-	20,312	150	2,237	29,646
Net realized gains (losses) on investments	139,894	7	-	3,028	64,233	71,313	1,313
Revenue from Advisory Services	6,459	-	6,459	-	-	-	-
Fee and other income	27,231	5,642	-	4,530	4,267	1,151	11,641
Net revenue	564,490	344,210	6,459	27,870	68,650	74,701	42,600
Provision for expected credit losses	(41,773)	5,419	-	-	-	-	(47,192)
Net change in unrealized appreciation (depreciation) of investments	485,184	(3,979)	-	51,730	423,473	15,257	(1,297)
Net foreign exchange gains (losses)	35,011	3,222	-	(24)	30,230	1,279	304
Net gains (losses) on other financial instruments	222	222	-	-	-	-	-
Income (loss) before operating and administrative expenses	1,043,134	349,094	6,459	79,576	522,353	91,237	(5,585)
Salaries and benefits	116,927	80,368	12,168	7,319	7,950	1,160	7,962
Premises and equipment	10,316	7,616	829	486	618	114	653
Other expenses	36,478	26,762	3,799	832	2,506	215	2,364
Operating and administrative expenses	163,721	114,746	16,796	8,637	11,074	1,489	10,979
Net income (loss)	879,413	234,348	(10,337)	70,939	511,279	89,748	(16,564)
Net income (loss) attributable to:							
BDC's shareholder	850,431	234,348	(10,337)	65,805	487,431	89,748	(16,564)
Non-controlling interests	28,982	-	-	5,134	23,848	-	-
Net income (loss)	879,413	234,348	(10,337)	70,939	511,279	89,748	(16,564)

	Three months ended September 30, 2020						
	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Capital Incentive Programs	Credit Availability Program
Interest income	402,196	359,780	-	23,814	-	1,979	16,623
Interest expense	22,966	20,745	-	1,484	119	-	618
Net interest income (expense)	379,230	339,035	-	22,330	(119)	1,979	16,005
Net realized gains (losses) on investments	(10,628)	-	-	254	(10,882)	-	-
Revenue from Advisory Services	4,227	-	4,227	-	-	-	-
Fee and other income	16,477	5,943	5	4,286	1,829	309	4,105
Net revenue (loss)	389,306	344,978	4,232	26,870	(9,172)	2,288	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)	-	(37,119)	74,428	(25,344)	(18)
Net foreign exchange gains (losses)	(12,959)	(279)	-	(365)	(11,901)	(342)	(72)
Net gains (losses) on other financial instruments	162	162	-	-	-	-	-
Income (loss) before operating and administrative expenses	289,497	292,277	4,232	(10,614)	53,355	(23,398)	(26,355)
Salaries and benefits	107,603	51,764	11,959	7,211	6,295	889	29,485
Premises and equipment	10,922	6,099	883	447	559	90	2,844
Other expenses	38,511	25,646	3,111	1,101	1,985	260	6,408
Operating and administrative expenses	157,036	83,509	15,953	8,759	8,839	1,239	38,737
Net income (loss)	132,461	208,768	(11,721)	(19,373)	44,516	(24,637)	(65,092)
Net income (loss) attributable to:							
BDC's shareholder	131,515	208,768	(11,721)	(18,789)	42,986	(24,637)	(65,092)
Non-controlling interests	946	-	-	(584)	1,530	-	-
Net income (loss)	132,461	208,768	(11,721)	(19,373)	44,516	(24,637)	(65,092)

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Six months ended
September 30, 2021

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Capital Incentive Programs	Credit Availability Program
Interest income	835,656	729,560	-	41,510	212	4,368	60,006
Interest expense	50,243	46,252	-	2,425	6	-	1,560
Net interest income	785,413	683,308	-	39,085	206	4,368	58,446
Net realized gains (losses) on investments	351,275	(222)	-	18,456	253,815	71,538	7,688
Revenue from Advisory Services	13,457	-	13,457	-	-	-	-
Fee and other income	48,060	12,091	8	10,482	5,470	1,411	18,598
Net revenue	1,198,205	695,177	13,465	68,023	259,491	77,317	84,732
Provision for expected credit losses	75,624	184,416	-	-	-	-	(108,792)
Net change in unrealized appreciation (depreciation) of investments	733,733	(4,029)	-	34,348	489,176	219,387	(5,149)
Net foreign exchange gains (losses)	20,221	1,429	-	258	17,828	897	(191)
Net gains (losses) on other financial instruments	578	578	-	-	-	-	-
Income (loss) before operating and administrative expenses	2,028,361	877,571	13,465	102,629	766,495	297,601	(29,400)
Salaries and benefits	231,224	155,836	24,389	15,321	15,377	2,274	18,027
Premises and equipment	20,125	14,614	1,630	925	1,192	291	1,473
Other expenses	72,280	53,388	7,624	1,719	4,647	396	4,506
Operating and administrative expenses	323,629	223,838	33,643	17,965	21,216	2,961	24,006
Net income (loss)	1,704,732	653,733	(20,178)	84,664	745,279	294,640	(53,406)
Net income (loss) attributable to:							
BDC's shareholder	1,676,190	653,733	(20,178)	79,585	721,816	294,640	(53,406)
Non-controlling interests	28,542	-	-	5,079	23,463	-	-
Net income (loss)	1,704,732	653,733	(20,178)	84,664	745,279	294,640	(53,406)
Business segment portfolio as at September 30, 2021							
Loans, net of allowance for expected credit losses	31,955,752	28,867,280	-	-	-	-	3,088,472
Asset-backed securities	864,481	864,481	-	-	-	-	-
Subordinate financing investments	1,704,880	12,348	-	1,000,013	286,067	389,100	17,352
Venture capital investments	3,683,576	-	-	-	2,633,334	888,115	162,127
Total portfolio	38,208,689	29,744,109	-	1,000,013	2,919,401	1,277,215	3,267,951

Six months ended
September 30, 2020

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Capital Incentive Programs	Credit Availability Program
Interest income	787,346	718,542	-	43,703	-	3,571	21,530
Interest expense	49,478	45,497	-	2,966	186	-	829
Net interest income (expense)	737,868	673,045	-	40,737	(186)	3,571	20,701
Net realized gains (losses) on investments	1,965	-	-	(3,554)	5,519	-	-
Revenue from Advisory Services	8,284	-	8,284	-	-	-	-
Fee and other income	29,844	11,359	7	8,601	4,318	729	4,830
Net revenue	777,961	684,404	8,291	45,784	9,651	4,300	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)	-	(38,541)	155,318	27,993	(18)
Net foreign exchange gains (losses)	(35,536)	(761)	-	(1,173)	(32,455)	(917)	(230)
Net gains (losses) on other financial instruments	493	493	-	-	-	-	-
Income (loss) before operating and administrative expenses	317,085	299,343	8,291	6,070	132,514	31,376	(160,509)
Salaries and benefits	220,376	101,623	19,720	12,979	11,635	1,671	72,748
Premises and equipment	20,652	10,406	1,450	778	1,028	213	6,777
Other expenses	82,618	57,586	6,125	2,201	4,552	455	11,699
Operating and administrative expenses	323,646	169,615	27,295	15,958	17,215	2,339	91,224
Net income (loss)	(6,561)	129,728	(19,004)	(9,888)	115,299	29,037	(251,733)
Net income (loss) attributable to:							
BDC's shareholder	(9,455)	129,728	(19,004)	(9,186)	111,703	29,037	(251,733)
Non-controlling interests	2,894	-	-	(702)	3,596	-	-
Net income (loss)	(6,561)	129,728	(19,004)	(9,888)	115,299	29,037	(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	-	918,160	165,318	186,113	13,392
Venture capital investments	2,038,607	-	-	-	1,497,548	474,615	66,444
Total portfolio	33,838,624	28,179,581	-	918,160	1,662,866	660,728	2,417,289



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 \$2.4 billion as at September 30, 2021 (\$294.6 million as at March 31, 2021) and the existing terms expire within 130 months (within 120 months as at March 31, 2021).

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, 2021 and March 31, 2021, there were no liabilities recognized in BDC’s Consolidated Statement of Financial Position related to these guarantees.

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

	September 30, 2021			
Allowance for expected credit losses on loan guarantees	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2021	12,659	12,800	-	25,459
Provision for expected credit losses				
Transfer to Stage 1 ⁽¹⁾	23,658	(23,658)	-	-
Transfer to Stage 2 ⁽¹⁾	(10,819)	10,819	-	-
Transfer to Stage 3 ⁽¹⁾	(18)	(611)	629	-
Net remeasurement of the allowance for expected credit losses ⁽²⁾	(29,449)	19,520	(288)	(10,217)
Net increase (decrease) in guarantees	83,989	73,898	141	158,028
Balance as at September 30, 2021	80,020	92,768	482	173,270

	March 31, 2021			
Allowance for expected credit losses on loan guarantees	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2020	-	-	-	-
Net remeasurement of the allowance for expected credit losses ⁽²⁾	62	61	-	123
Net increase (decrease) in guarantees	12,597	12,739	-	25,336
Balance as at March 31, 2021	12,659	12,800	-	25,459

- (1) Provides the cumulative movement from the previous month allowance for expected credit losses on loan guarantees due to changes in stages prior to remeasurements.
- (2) Includes the net remeasurement of the allowance following a transfer between stages, changes in guarantee amounts, changes in credit risk and changes in model inputs and assumptions, including forward-looking macroeconomic variables.



13.

Related party transactions

As at September 30, 2021, BDC had \$13,875.0 million outstanding in short-term notes and \$5,190.5 million in long-term notes with Her Majesty the Queen in Right of Canada acting through the Minister of Finance (\$13,336.4 million in short-term notes and \$4,908.6 million in long-term notes as at March 31, 2021).

BDC recorded \$23.3 million in interest expense, related to the borrowings from the Minister of Finance, for the quarter and \$43.9 million for the six-months ended September 30, 2021. Last year's comparative figures for the same periods were \$23.0 million and \$50.8 million, respectively.

In addition, \$50.0 million in borrowings with the Minister of Finance were repurchased in the first six months of fiscal 2022. This resulted in no gain or loss in the first six months of fiscal 2022 (\$5,305.0 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.

Comparative information

BDC made some changes to its reporting structure to align with the delivery of its services, which resulted in the following:

- The portfolios and related results of Growth Equity and Intellectual Property, previously reported under the Growth and Transition Capital segment, were transferred to the Venture Capital segment; and
- The portfolios and related results of Cleantech Practice were transferred to the Capital Incentive Programs segment, and the Cleantech Practice segment was eliminated; and
- The Venture Capital Incentive Programs segment was renamed as the Capital Incentive Programs segment.

These changes only impacted the individual results and investment portfolios of the Growth and Transition Capital, Venture Capital, Capital Incentive Programs and Cleantech Practice segments as presented in Note 11, *Segmented Information*. There was no impact on the Consolidated Statement of Income (loss), or on the Consolidated Statement of Financial Position.

BDC prepared its Consolidated Financial Statements for the quarter ended September 30, 2021, including the comparative information as at September 30, 2020, in accordance with the new internal reporting structure.

The following table summarizes the impact of the above-mentioned changes on the reportable segments as at September 30, 2020.

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Business Lines	Three months ended September 30, 2020	Segment reclassification impact	Three months ended September 30, 2020 reclassified
Growth and Transition Capital			
Interest income	23,814	-	23,814
Interest expense	1,603	(119)	1,484
Net interest income	22,211	119	22,330
Net realized gains (losses) on investments	11,054	(10,800)	254
Fee and other income	4,425	(139)	4,286
Net revenue (loss)	37,690	(10,820)	26,870
Net change in unrealized appreciation (depreciation) of investments	(23,557)	(13,562)	(37,119)
Net foreign exchange gains (losses)	(426)	61	(365)
Income (loss) before operating and administrative expenses	13,707	(24,321)	(10,614)
Salaries and benefits	8,317	(1,106)	7,211
Premises and equipment	498	(51)	447
Other expenses	1,110	(9)	1,101
Operating and administrative expenses	9,925	(1,166)	8,759
Net income (loss)	3,782	(23,155)	(19,373)
Venture Capital			
Interest income	-	-	-
Interest expense	-	119	119
Net interest income (expense)	-	(119)	(119)
Net realized gains (losses) on investments	(21,682)	10,800	(10,882)
Fee and other income	1,690	139	1,829
Net revenue (loss)	(19,992)	10,820	(9,172)
Net change in unrealized appreciation (depreciation) of investments	60,866	13,562	74,428
Net foreign exchange gains (losses)	(11,840)	(61)	(11,901)
Income before operating and administrative expenses	29,034	24,321	53,355
Salaries and benefits	5,189	1,106	6,295
Premises and equipment	508	51	559
Other expenses	1,976	9	1,985
Operating and administrative expenses	7,673	1,166	8,839
Net income	21,361	23,155	44,516
Cleantech Practice			
Interest income	1,979	(1,979)	-
Interest expense	-	-	-
Net interest income (expenses)	1,979	(1,979)	-
Fee and other income	230	(230)	-
Net revenue (loss)	2,209	(2,209)	-
Net change in unrealized appreciation (depreciation) of investments	(5,771)	5,771	-
Net foreign exchange gains (losses)	(64)	64	-
Income (loss) before operating and administrative expenses	(3,626)	3,626	-
Salaries and benefits	736	(736)	-
Premises and equipment	54	(54)	-
Other expenses	94	(94)	-
Operating and administrative expenses	884	(884)	-
Net income (loss)	(4,510)	4,510	-
Capital Incentive Programs			
Interest income	-	1,979	1,979
Interest expense	-	-	-
Net interest income	-	1,979	1,979
Fee and other income	79	230	309
Net revenue	79	2,209	2,288
Net change in unrealized appreciation (depreciation) of investments	(19,573)	(5,771)	(25,344)
Net foreign exchange gains (losses)	(278)	(64)	(342)
Income (loss) before operating and administrative expenses	(19,772)	(3,626)	(23,398)
Salaries and benefits	153	736	889
Premises and equipment	36	54	90
Other expenses	166	94	260
Operating and administrative expenses	355	884	1,239
Net income (loss)	(20,127)	(4,510)	(24,637)

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Business Lines	Six months ended September 30, 2020	Segments reclassification impact	Six months ended September 30, 2020 reclassified
Growth and Transition Capital			
Interest income	43,703	-	43,703
Interest expense	3,152	(186)	2,966
Net interest income	40,551	186	40,737
Net realized gains (losses) on investments	7,246	(10,800)	(3,554)
Fee and other income	11,224	(2,623)	8,601
Net revenue (loss)	59,021	(13,237)	45,784
Net change in unrealized appreciation (depreciation) of investments	(24,979)	(13,562)	(38,541)
Net foreign exchange gains (losses)	(1,234)	61	(1,173)
Income (loss) before operating and administrative expenses	32,808	(26,738)	6,070
Salaries and benefits	14,692	(1,713)	12,979
Premises and equipment	880	(102)	778
Other expenses	2,215	(14)	2,201
Operating and administrative expenses	17,787	(1,829)	15,958
Net income (loss)	15,021	(24,909)	(9,888)
Business segment portfolio	1,083,478	(165,318)	918,160
Venture Capital			
Interest income	-	-	-
Interest expense	-	186	186
Net interest income (expense)	-	(186)	(186)
Net realized gains (losses) on investments	(5,281)	10,800	5,519
Fee and other income	1,695	2,623	4,318
Net revenue (loss)	(3,586)	13,237	9,651
Net change in unrealized appreciation (depreciation) of investments	141,756	13,562	155,318
Net foreign exchange gains (losses)	(32,394)	(61)	(32,455)
Income before operating and administrative expenses	105,776	26,738	132,514
Salaries and benefits	9,922	1,713	11,635
Premises and equipment	926	102	1,028
Other expenses	4,538	14	4,552
Operating and administrative expenses	15,386	1,829	17,215
Net income	90,390	24,909	115,299
Business segment portfolio	1,497,548	165,318	1,662,866
Cleantech Practice			
Interest income	3,571	(3,571)	-
Interest expense	-	-	-
Net interest income (expense)	3,571	(3,571)	-
Fee and other income	567	(567)	-
Net revenue (loss)	4,138	(4,138)	-
Net change in unrealized appreciation (depreciation) of investments	(192)	192	-
Net foreign exchange gains (losses)	(229)	229	-
Income (loss) before operating and administrative expenses	3,717	(3,717)	-
Salaries and benefits	1,405	(1,405)	-
Premises and equipment	156	(156)	-
Other expenses	191	(191)	-
Operating and administrative expenses	1,752	(1,752)	-
Net income (loss)	1,965	(1,965)	-
Business segment portfolio	191,289	(191,289)	-
Capital Incentive Programs			
Interest income	-	3,571	3,571
Interest expense	-	-	-
Net interest income	-	3,571	3,571
Fee and other income	162	567	729
Net revenue	162	4,138	4,300
Net change in unrealized appreciation (depreciation) of investments	28,185	(192)	27,993
Net foreign exchange gains (losses)	(688)	(229)	(917)
Income before operating and administrative expenses	27,659	3,717	31,376
Salaries and benefits	266	1,405	1,671
Premises and equipment	57	156	213
Other expenses	264	191	455
Operating and administrative expenses	587	1,752	2,339
Net income	27,072	1,965	29,037
Business segment portfolio	469,439	191,289	660,728



15.

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 condensed quarterly Consolidated Financial Statements of BDC prepared as of, and for the quarter ended September 30, 2021, reflect the impacts resulting from COVID-19 to the extent known at the reporting date.



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