2023
Financial Report

Second Quarter

September 30, 2022

Executive Summary

Canadian economic outlook

The Canadian economy showed impressive resilience in the first half of calendar year 2022 as GDP grew rapidly over that period. However, the pace of growth began to slow since then.

GDP growth in August reached 0.1% and Statistics Canada's preliminary estimate calls for another 0.1% growth in September. As we enter the final quarter of the calendar year, the challenges facing the Canadian economy continue to mount. Growth will likely become increasingly difficult to achieve as interest rate hikes begin to take a toll on the economy.

In an attempt to bring down soaring inflation, the Bank of Canada started to raise rates by larger increments in the summer. Over the third quarter of calendar year 2022, the bank increased its policy rate by 175 basis points before somewhat tempering the pace of its tightening cycle in October with another 50-basis-point hike. At the beginning of the fourth quarter, Canada’s policy rate stood at 3.75%.

A slowdown in demand in the economy was a sign the tighter monetary conditions were having their intended effect. Inflation in Canada peaked at 8.1% in June before cooling to 6.9% in September. Core inflation also started to decline, suggesting price increases had not become entrenched in the economy.

Most of the country’s recent growth has been from sectors hardest hit by the pandemic—accommodation, food services and transportation. By contrast, the real estate and construction industries, which had been strong contributors to GDP growth after the initial stages of the pandemic, were among the first to slow down in response to interest rate hikes. Retail sales also turned negative over the summer. These interest-sensitive sectors will likely continue to slip in the coming months as past rate increases continue to percolate through the economy.

The labour market had been a strong contributor to the resilience of the Canadian economy in the first half of the calendar year. However, employment gains have become increasingly hard to come by over the past four months. Since May, the Canadian economy has lost 92,000 jobs. After reaching an all-time low of 4.9% in June and July, the unemployment rate rose sharply in August before ending the quarter at 5.2% in September.

Nonetheless, the labour market remains tight. In August, the number of job vacancies remained slightly below the 1-million mark. In September, layoffs continued their downward trend and more job openings were created by retirements and students going back to school. As employers sought to attract and retain workers, average earnings rose to a 5.2% annual pace.

Commodity prices began to decline in June, due to growing fears of a global recession and a slowdown in demand worldwide amid tighter financial conditions. In response to these forces, Canadian export volumes decreased in August. Falling commodity prices and geopolitical uncertainty have also been weighing on the Canada-U.S. dollar exchange rate. The Canadian dollar traded as low as US $0.73 at the end of September. This should favour Canadian exports at the expense of imports and could help temper the economic slowdown in Canada.

Crude oil’s main price benchmarks dropped by 35% over the third quarter in response to slowing demand and recession fears. However, prices should rebound in coming months as supply is curtailed by producers.

While the economy began to lose momentum in the second half of the year, Canada’s GDP is still expected to grow by 3.5% this calendar year.

Economic turbulence is rising worldwide, and Canada is no exception. We expect no more than 0.5% growth in the calendar year 2023, and there could be one or two quarters of negative growth during the year. However, a recession remains a risk not a certainty.

Executive Summary

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). Refer to Note 11, *Segmented information*, of the Consolidated Financial Statements for a description of each reportable segment's operations.

Activities

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

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 all of BDC's COVID-19 relief measures and the Canada Digital Adoption Program (CDAP).

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

Core activities

Despite the uncertain economic environment and rising interest rates, entrepreneurs' financing and investing intentions have been strong over the first six months of fiscal 2023 resulting in continued growth across our business lines.

Financing recorded a 30.3% increase in loan acceptances for the first half of fiscal 2023 compared to the equivalent period last year. Clients accepted a total of $2.7 billion in loans for the second quarter and $6.2 billion for the six-month period of fiscal 2023, compared to $2.1 billion and $4.8 billion for the same periods last year. Financing's loans portfolio[1], excluding CAP loans, stood at $32.3 billion as at September 30, 2022.

Advisory Services continued to extend its client reach with the new services offered this fiscal year to support entrepreneurs in their digital adoption plan under CDAP for which BDC is one of the approved partners. The number of mandates sold jumped 61.9% in the first six months of fiscal 2023 compared to the equivalent period last year. Net contracts signed amounted to $9.7 million for the quarter and $21.4 million for the six-month period ended September 30, 2022, compared to $7.2 million and $16.2 million for the same periods last year.

Market demand for business growth and transition financing remained stable for the first half of fiscal 2023. GTC clients accepted $105.8 million in financing during the second quarter and $261.9 million for the six-month period of fiscal 2023, compared to $125.8 million and $270.0 million, respectively, for the same periods last year.

VC authorizations for the second quarter and the six-month period of fiscal 2023 were strong with investment authorizations totalling $199.3 million and $377.5 million, respectively, compared to $119.4 million and $219.2 million, respectively, for the same periods last year. The increase in authorizations was mainly attributable to indirect investments in funds and the new Climate Tech Fund II and Growth Equity Partners funds. In September 2022, BDC announced the launch of the $500 million Thrive Venture Fund and Lab for Women to support Canadian women-led businesses. The Thrive platform comprises three distinct components ($300 million direct investment fund, $100 million lab, $100 million indirect investment envelope), providing a comprehensive approach to addressing barriers faced by women, be it through direct early-stage investment, strategic investment in women-led and focused funds, or emerging models for providing equity investments

[1] Net of allowance for expected credit losses.

for women-led businesses in the earliest stages of development, all while continuing to develop a more robust and sustainable ecosystem for all.

On behalf of the Government of Canada, BDC manages Capital Incentive Programs (CIP), which include $390 million for Venture Capital Action Plan (VCAP) to support promising Canadian start-ups, $372 million for Venture Capital Catalyst Initiative (VCCI) to increase the availability of late-stage VC and support underserved groups, $600 million for Cleantech Practice and $100 million for Indigenous Growth Fund (IGF) under the management of the National Aboriginal Capital Corporations Association (NACCA). VCAP and VCCI were fully committed in F2021. Cleantech Practice recorded $5.3 million in authorizations in the second quarter and $10.6 million in the first six months of fiscal 2023, compared to $39.0 million and $66.3 million, respectively, for the same periods last year. Cleantech Practice's total authorizations since inception amounted to $517.2 million. IGF's investment portfolio stood at $10.9 million as at September 30, 2022.

Credit Availability Program (CAP)

HASCAP guarantee acceptances amounted to $228.8 million for the six-month period of fiscal 2023 compared to $2.1 billion for the same period last year. The program was closed for new authorizations on March 31, 2022 and the loan acceptances under this program are now fully funded by the participating financial institutions. The carrying amount of CAP's loan and investment portfolio stood at $2.6 billion as at September 30, 2022.

The first CDAP acceptances were recorded in the total amount of $6.5 million for the six-month period, including $5.9 million for the quarter, however, results are not yet representative, as the program was launched only on March 3, 2022. To receive BDC financing under the program, entrepreneurs must have finalized a digital plan, received approval from Innovation, Science and Economic Development Canada (ISED) as well as a referral to BDC. We expect acceptances to increase in the coming quarters.

Financial results overview

Consolidated net income amounted to $19.3 million for the second quarter and $252.5 million for the six-month period of fiscal 2023, consisting of a net loss of $40.2 million and net income of $160.1 million, respectively, for the core business, and net income of $59.5 million and $92.4 million, respectively, for CAP. In comparison, BDC reported consolidated net income of $879.4 million and $1.7 billion, respectively, for the same periods last year, consisting of net income of $896.0 million and $1.8 billion, respectively, for the core business and net losses of $16.6 million and $53.4 million, respectively, for CAP. The decrease in net income is mainly attributable to higher net change in unrealized depreciation of the investments portfolio and higher provision for expected credit losses on the loans portfolio, driven by the anticipated slowdown in the economy and macroeconomic headwinds.

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. BDC supports underserved entrepreneurs and emergent industries to generate greater social and economic impact. BDC is also certified B Corp and actively contributes to the growth of a worldwide movement of entrepreneurs who create inclusive and sustainable prosperity.

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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, 2022. 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 2022 Annual Report. All amounts are in Canadian dollars, unless otherwise specified.

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, 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.

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, 2022, 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).

Consolidated net income

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2023**	F2022	**F2023**	F2022
Financing	**156.1**	234.3	**432.2**	653.7
Advisory Services	**(9.6)**	(10.3)	**(19.3)**	(20.2)
Growth & Transition Capital	**(1.5)**	70.9	**24.3**	84.7
Venture Capital	**(233.8)**	511.3	**(268.8)**	745.3
Capital Incentive Programs	**48.6**	89.8	**(8.3)**	294.6
Core net income (loss)	**(40.2)**	896.0	**160.1**	1,758.1
Credit Availability Program	**59.5**	(16.6)	**92.4**	(53.4)
Net income	**19.3**	879.4	**252.5**	1,704.7
Net income (loss) attributable to:				
BDC's shareholder	**67.2**	850.3	**298.5**	1,676.0
Non-controlling interests	**(47.9)**	29.1	**(46.0)**	28.7
Net income	**19.3**	879.4	**252.5**	1,704.7

Three and six months ended September 30

For the quarter ended September 30, 2022, BDC generated consolidated net income of $19.3 million, comprising $67.2 million of net income attributable to BDC's shareholder and a loss of $47.9 million attributable to non-controlling interests. For the equivalent period last year, consolidated net income of $879.4 million included $850.3 million of net income attributable to BDC's shareholder and $29.1 million attributable to non-controlling interests. BDC's consolidated core net loss was $40.2 million compared to a net income of $896.0 million reported for the same period last year.

For the six months ended September 30, 2022, BDC recorded a consolidated net income of $252.5 million compared to a net income of $1.7 billion recorded for the same period last year. The decrease in core net income was mostly attributable to higher net change in unrealized depreciation of investments for VC and CIP and higher provision for expected credit losses on Financing's performing loans portfolio. Core results were negatively impacted by the anticipated slowdown in the economy due to high inflation, rising interest rates, geopolitical uncertainties and declines in public market investment valuations. CAP's net income was favourable compared to last year mainly explained by lower provision for expected credit losses on the decreasing loans portfolio due to the end of COVID-19 programs, and higher fee and other income.

Consolidated comprehensive income

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2023**	F2022	**F2023**	F2022
Net income	**19.3**	879.4	**252.5**	1,704.7
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Net change in unrealized gains (losses) on FVOCI assets	**(11.4)**	(2.5)	**(25.1)**	(5.3)
Net change in unrealized gains (losses) on cash flow hedges	**(0.2)**	(0.2)	**(0.3)**	(0.5)
Total items that may be reclassified subsequently to net income	**(11.6)**	(2.7)	**(25.4)**	(5.8)
Items that will not be reclassified to net income				
Remeasurements of net defined benefit asset or liability	**(113.2)**	97.4	**(40.8)**	115.9
Other comprehensive income (loss)	**(124.8)**	94.7	**(66.2)**	110.1
Total comprehensive income (loss)	**(105.5)**	974.1	**186.3**	1,814.8
Total comprehensive income (loss) attributable to:				
BDC's shareholder	**(57.6)**	945.0	**232.3**	1,786.1
Non-controlling interests	**(47.9)**	29.1	**(46.0)**	28.7
Total comprehensive income (loss)	**(105.5)**	974.1	**186.3**	1,814.8

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 a consolidated other comprehensive loss of $124.8 million and $66.2 million, respectively, for the second quarter and the six-month period ended September 30, 2022, compared to consolidated other comprehensive income of $94.7 million and $110.1 million, respectively, for the same periods last year. The decrease in consolidated other comprehensive income for the six-month period of fiscal 2023 was mainly attributable to a remeasurement loss of $40.8 million on the net defined benefit asset or liability. This loss was due to lower returns on plan assets, which was offset by higher discount rates used to value the net defined benefit liability.

Financing results

($ in millions)	Three months ended September 30 F2023	Three months ended September 30 F2022	Six months ended September 30 F2023	Six months ended September 30 F2022
Net interest income	**360.5**	338.6	**715.0**	683.3
Fee and other income	**6.4**	5.7	**13.4**	12.1
Provision for expected credit losses	**(75.8)**	5.4	**(50.2)**	184.4
Net realized gains (losses) on investments	**-**	-	**(0.5)**	-
Net change in unrealized appreciation (depreciation) of investments	**1.3**	(4.1)	**1.2**	(4.3)
Net gains (losses) on other financial instruments	**0.2**	0.2	**13.1**	0.6
Net foreign exchange gains (losses)	**9.0**	3.2	**13.7**	1.4
Income before operating and administrative expenses	**301.6**	349.0	**705.7**	877.5
Operating and administrative expenses	**145.5**	114.7	**273.5**	223.8
Net income from Financing	**156.1**	234.3	**432.2**	653.7

As % of average portfolio	Three months ended September 30 F2023	Three months ended September 30 F2022	Six months ended September 30 F2023	Six months ended September 30 F2022
Net interest income	**4.2**	4.4	**4.3**	4.5
Fee and other income	**0.1**	0.1	**0.1**	0.1
Provision for expected credit losses	**(0.9)**	0.1	**(0.3)**	1.2
Net change in unrealized appreciation (depreciation) of investments	**-**	(0.1)	**-**	-
Net foreign exchange gains (losses)	**0.1**	-	**0.1**	-
Income before operating and administrative expenses	**3.5**	4.5	**4.2**	5.8
Operating and administrative expenses	**1.7**	1.5	**1.6**	1.5
Net income from Financing	**1.8**	3.0	**2.6**	4.3

Three and six months ended September 30

Net income from Financing was $156.1 million for the second quarter of fiscal 2023 and $432.2 million for the six-month period ended September 30, 2022, compared to net income of $234.3 million and $653.7 million for the same periods last year. The decrease in net income from Financing for the quarter and six months ended September 30, 2022 was mainly explained by higher provision for expected credit losses on the performing loans portfolio due to deteriorating macroeconomic conditions compared to reversals of provision for the equivalent periods last year that reflected improvements in macroeconomic outlook. For the first half of fiscal 2023, the provision for expected credit losses reached

$50.2 million compared to a reversal of $184.4 million for the equivalent period last year. This was partially offset by higher net interest income of $715.0 million compared to $683.3 million last year primarily due to portfolio growth.

Operating and administrative expenses for the quarter and six months ended September 30, 2022 were $145.5 million and $273.5 million, higher than the $114.7 million and $223.8 million in the corresponding periods last year. The increase in operating and administrative expenses was mainly driven by higher salaries and staff benefits due to additional resources, higher professional fees, corporate projects and technology expenses. In addition, lower costs were allocated to the CAP segment for COVID-19 initiatives, which ended on June 30, 2021.

Advisory Services results

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2023**	F2022	**F2023**	F2022
Revenue	**8.8**	6.5	**15.9**	13.5
Delivery expenses[1]	**4.5**	3.3	**8.4**	7.2
Gross operating margin	**4.3**	3.2	**7.5**	6.3
Operating and administrative expenses	**13.9**	13.5	**26.8**	26.5
Net loss from Advisory Services	**(9.6)**	(10.3)	**(19.3)**	(20.2)

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

Three and six months ended September 30

A net loss of $9.6 million was recorded for the second quarter of fiscal 2023, compared to a $10.3 million net loss for the same quarter last year. Cumulative net loss for the six-month period ended September 30, 2022 was $19.3 million, compared to a net loss of $20.2 million for the same period last year. The $0.9 million favourable variance for the six-month period ended September 30, 2022 was attributable to the higher gross operating margin resulting from higher revenues. This was offset by slightly higher operating and administrative expenses.

Revenue amounted to $15.9 million for the six-month period ended September 30, 2022, higher than the $13.5 million recorded last year, mainly driven by higher net contracts signed.

Operating and administrative expenses amounted to $13.9 million for the three-month period compared to $13.5 million for the corresponding period of fiscal 2022. Operating and administrative expenses of $26.8 million for the six-month period ended September 30, 2022, were higher than the $26.5 million recorded for the corresponding period of fiscal 2022 mainly explained by higher salaries and benefits due to an increase in the number of employees.

Growth & Transition Capital results

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2023**	F2022	**F2023**	F2022
Net revenue on investments	**39.8**	27.8	**78.1**	68.0
Net change in unrealized appreciation (depreciation) of investments	**(26.6)**	51.8	**(27.2)**	34.4
Net foreign exchange gains (losses)	**(2.8)**	-	**(4.9)**	0.3
Income before operating and administrative expenses	**10.4**	79.6	**46.0**	102.7
Operating and administrative expenses	**11.9**	8.7	**21.7**	18.0
Net income (loss) from Growth & Transition Capital	**(1.5)**	70.9	**24.3**	84.7
Net income (loss) attributable to:				
BDC's shareholder	**12.2**	65.7	**37.6**	79.6
Non-controlling interests	**(13.7)**	5.2	**(13.3)**	5.1
Net income (loss) from Growth & Transition Capital	**(1.5)**	70.9	**24.3**	84.7

	Three months ended September 30		Six months ended September 30	
As % of average portfolio	**F2023**	F2022	**F2023**	F2022
Net revenue on investments	**13.7**	10.9	**13.6**	13.6
Net change in unrealized appreciation (depreciation) of investments	**(9.1)**	20.4	**(4.7)**	6.9
Net foreign exchange gains (losses)	**(1.0)**	-	**(0.9)**	0.1
Income before operating and administrative expenses	**3.6**	31.3	**8.0**	20.6
Operating and administrative expenses	**4.1**	3.4	**3.8**	3.6
Net income (loss) from Growth & Transition Capital	**(0.5)**	27.9	**4.2**	17.0
Net income (loss) attributable to:				
BDC's shareholder	**4.2**	25.9	**6.5**	16.0
Non-controlling interests	**(4.7)**	2.0	**(2.3)**	1.0
Net income (loss) from Growth & Transition Capital	**(0.5)**	27.9	**4.2**	17.0

Three and six months ended September 30

The second quarter of fiscal 2023 resulted in a net loss of $1.5 million for GTC, compared to net income of $70.9 million for the same period last year. For the six months ended September 30, 2022, GTC recorded net income of $24.3 million, compared to net income of $84.7 million for the same period of fiscal 2022. Results for the three and six-month period ended September 30, 2022, were negatively affected by higher net change in unrealized depreciation of investments.

GTC recorded a net change in unrealized depreciation of investments of $26.6 million in the second quarter of fiscal 2023 and $27.2 million for the first half of fiscal 2023, compared to a net change in unrealized appreciation of investments of $51.8 million and $34.4 million during the same periods last year, as detailed below. The $27.2 million net change in unrealized depreciation of investments for the first six months of fiscal 2023 was mainly explained by a net fair value depreciation of $20.0 million and a reversal of net fair value appreciation due to realized income and write-offs of $7.2 million. The uncertain economic environment including the high inflation and rising interest rates contributed to net fair value depreciation in our portfolio.

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2023**	F2022	**F2023**	F2022
Net fair value appreciation (depreciation)	**(18.9)**	44.9	**(20.0)**	41.1
Reversal of net fair value depreciation (appreciation) due to realized income and write-offs	**(7.7)**	6.9	**(7.2)**	(6.7)
Net change in unrealized appreciation (depreciation) of investments	**(26.6)**	51.8	**(27.2)**	34.4

Operating and administrative expenses amounted to $11.9 million for the three-month period compared to $8.7 million for the corresponding period of fiscal 2022. Operating and administrative expenses amounted to $21.7 million for the six-month period ended September 30, 2022, higher than the $18.0 million recorded last year. The increase is a result of higher salaries and staff benefits and cost allocations from other divisions.

Venture Capital results

($ in millions)	Three months ended September 30 F2023	Three months ended September 30 F2022	Six months ended September 30 F2023	Six months ended September 30 F2022
Net revenue on investments	**29.9**	68.7	**57.4**	259.5
Net change in unrealized appreciation (depreciation) of investments	**(366.8)**	423.5	**(468.3)**	489.2
Net foreign exchange gains (losses)	**117.7**	30.2	**170.6**	17.8
Income (loss) before operating and administrative expenses	**(219.2)**	522.4	**(240.3)**	766.5
Operating and administrative expenses	**14.6**	11.1	**28.5**	21.2
Net income (loss) from Venture Capital	**(233.8)**	511.3	**(268.8)**	745.3
Net income (loss) attributable to:				
BDC's shareholder	**(199.6)**	487.4	**(236.1)**	721.7
Non-controlling interests	**(34.2)**	23.9	**(32.7)**	23.6
Net income (loss) from Venture Capital	**(233.8)**	511.3	**(268.8)**	745.3

Three and six months ended September 30

During the second quarter of fiscal 2023, VC recorded a net loss of $233.8 million, compared to net income of $511.3 million for the same period last year. For the six months ended September 30, 2022, VC’s net loss was $268.8 million, compared to net income of $745.3 million for the same period last year. Results for the second quarter and first half of fiscal 2023 were negatively impacted by higher net change in unrealized depreciation of investments due to uncertainties in the current market environment. High inflation, rising interest rates, declines in public markets, more specifically the technology market, contributed to higher fair value depreciation in our portfolio, which is in line with market trends.

As detailed below, VC recorded a net change in unrealized depreciation of investments of $366.8 million for the second quarter and $468.3 million for the six months of fiscal 2023, mainly driven by net fair value depreciation, compared to a net change in unrealized appreciation of $423.5 million and $489.2 million, respectively, for the same periods last year.

($ in millions)	Three months ended September 30 F2023	Three months ended September 30 F2022	Six months ended September 30 F2023	Six months ended September 30 F2022
Net fair value appreciation (depreciation)	**(349.7)**	463.7	**(421.3)**	662.5
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	**(17.1)**	(40.2)	**(47.0)**	(173.3)
Net change in unrealized appreciation (depreciation) of investments	**(366.8)**	423.5	**(468.3)**	489.2

In the second quarter and six-month period of fiscal 2023, net foreign exchange gains on investments of $117.7 million and $170.6 million, respectively, were recorded due to favourable foreign exchange fluctuations in the portfolio in U.S.

dollars, compared to net foreign exchange gains on investments of $30.2 million and $17.8 million recorded for the corresponding periods last year.

Operating and administrative expenses amounted to $14.6 million for the three-month period compared to $11.1 million for the corresponding period of fiscal 2022. On a year-to-date basis, operating and administrative expenses amounted to $28.5 million, $7.3 million higher than those recorded for the same period of fiscal 2022. The increase was mainly explained by higher salaries and staff benefits due to an increase in the number of employees and higher cost allocations from other divisions.

Capital Incentive Programs results

	Three months ended September 30		Six months ended September 30	
($ in millions)	**F2023**	F2022	**F2023**	F2022
Net revenue on investments	**(1.9)**	74.7	**1.8**	77.3
Net change in unrealized appreciation (depreciation) of investments	**48.1**	15.3	**(12.6)**	219.4
Net foreign exchange gains (losses)	**4.0**	1.3	**5.7**	0.9
Income (loss) before operating and administrative expenses	**50.2**	91.3	**(5.1)**	297.6
Operating and administrative expenses	**1.6**	1.5	**3.2**	3.0
Net income (loss) from Capital Incentive Programs	**48.6**	89.8	**(8.3)**	294.6

Three and six months ended September 30

During the second quarter of fiscal 2023, CIP recorded net income of $48.6 million, compared to net income of $89.8 million for the same period last year. For the six-month period ended September 30, 2022, CIP recorded a net loss of $8.3 million, compared to net income of $294.6 million for the same period last year. Similar to VC, the unfavourable variance for the first six months of fiscal 2023 was mainly explained by net fair value depreciation on investments due to market headwinds compared to net fair value appreciation for the equivalent period last fiscal.

Operating and administrative expenses amounted to $1.6 million for the three-month period compared to $1.5 million for the corresponding period of fiscal 2022. Operating and administrative expenses of $3.2 million for the six-month period ended September 30, 2022, were slightly higher than those recorded for the same period of fiscal 2022. The increase was mainly explained by higher salaries and staff benefits and cost allocations from other divisions.

Credit Availability Program results

	Three months ended September 30		Six months ended September 30	
($ in millions)	F2023	F2022	F2023	F2022
Net interest income	**23.7**	29.6	**50.8**	58.4
Fee and other income	**60.0**	11.7	**91.0**	18.6
Provision for expected credit losses	**(6.0)**	(47.2)	**(23.5)**	(108.8)
Net gains (losses) on investments	**0.2**	1.3	**(0.7)**	7.7
Net change in unrealized appreciation (depreciation) of investments	**(11.4)**	(1.3)	**(11.7)**	(5.1)
Net gains (losses) on other financial instruments	**(1.7)**	-	**(1.9)**	-
Net foreign exchange gains (losses)	**0.5**	0.3	**0.8**	(0.2)
Income (loss) before operating and administrative expenses	**65.3**	(5.6)	**104.8**	(29.4)
Operating and administrative expenses	**5.8**	11.0	**12.4**	24.0
Net income (loss) from Credit Availability Program	**59.5**	(16.6)	**92.4**	(53.4)

Three and six months ended September 30

During the second quarter of fiscal 2023, CAP recorded net income of $59.5 million, compared to a net loss of $16.6 million for the same period last year. For the six-month period ended September 30, 2022, CAP recorded net income of $92.4 million, compared to a net loss of $53.4 million for the same period last year.

Results for the second quarter and the six-month period of fiscal 2023 were favourably impacted by higher fee and other income of $60.0 million and $91.0 million, respectively, compared to $11.7 million and $18.6 million for the same periods last year. For the quarter and the six-month period ended September 30, 2022, CAP recorded a provision for expected credit losses of $6.0 million and $23.5 million, respectively, compared to a provision of $47.2 million and $108.8 million for the same periods last year. The lower provision for expected credit losses in fiscal 2023 was driven by a reversal of provision on the performing loans portfolio.

Operating and administrative expenses amounted to $5.8 million for the three-month period compared to $11.0 million for the corresponding period of fiscal 2022. Operating and administrative expenses of $12.4 million for the six months ended September 30, 2022, were lower than the $24.0 million recorded last year, mostly due to a lower level of resources from other business lines assigned to the CAP segment for COVID-19 initiatives.

Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows

As at September 30, 2022, total BDC assets amounted to $42.8 billion, an increase of $1.2 billion from March 31, 2022, driven by the $1.4 billion increase in our net loans portfolio.

At $34.7 billion, the loans portfolio represented BDC’s largest asset (gross portfolio of $35.8 billion less a $1.1 billion allowance for expected credit losses). The gross loans portfolio grew by 4.0% over the six months ended September 30, 2022, reflecting an increase in the level of activity in the Financing portfolio.

BDC's investment portfolios, which include the asset-backed securities, subordinate financing and venture capital investments portfolios, stood stable at $6.8 billion, compared to $6.9 billion as at March 31, 2022. Subordinate financing grew by $147.2 million, whereas the value of venture capital investments decreased by $190.8 million. Asset-backed securities grew by $26.7 million.

As at September 30, 2022, the fair value of derivative assets was nil and the fair value of derivative liabilities was $20.5 million. Net derivative fair value decreased by $32.7 million since March 31, 2022.

As at September 30, 2022, BDC recorded a net defined benefit asset of $176.3 million for the registered pension plan and the other plans. This represented a decrease of $57.4 million, compared to the total net defined benefit asset as at March 31, 2022, primarily as a result of remeasurement losses recorded in the first six months of fiscal 2023. Refer to page 9 of this report for further information on remeasurements of net defined benefit asset or liability.

BDC holds cash and cash equivalents in accordance with its Treasury Risk Policy. BDC's liquidities, which ensure funds are available to meet its cash outflows, totalled $844.5 million as at September 30, 2022, compared to $906.4 million as at March 31, 2022.

For the six-month period ended September 30, 2022, operating activities used $823.3 million, mainly to support the growth of the loans portfolio. Cash flows used by investing activities amounted to $284.4 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 $1.0 billion in cash flow, mainly as a result of net change of $1.3 billion in short-term notes.

As at September 30, 2022, BDC funded its portfolios and liquidities with borrowings of $21.2 billion and total equity of $20.7 billion. Borrowings comprised $15.7 billion in short-term notes and $5.5 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 117.6% as at September 30, 2022, above its target capital ratio, compared to 119.3% as at March 31, 2022. The decrease in the internal capital ratio was explained by an increase in required capital arising mainly from Financing's and Venture Capital's portfolio growth. Our regulatory capital ratio is well above the minimum regulatory capital requirements and BDC is well positioned to continue to support Canadian SMEs.

Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)

Management's Responsibility for Financial Information

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

Montreal, Canada
November 16, 2022

Consolidated Statement of Financial Position

(unaudited)

(in thousands of Canadian dollars)	Notes	**September 30, 2022**	March 31, 2022
ASSETS			
Cash and cash equivalents		**844,479**	906,386
Derivative assets		**1**	12,277
Loans			
Loans, gross carrying amount	6	**35,787,707**	34,394,759
Less: allowance for expected credit losses	6	**(1,086,454)**	(1,111,242)
Loans, net of allowance for expected credit losses		**34,701,253**	33,283,517
Investments			
Asset-backed securities	7	**1,015,153**	988,466
Subordinate financing investments	8	**1,876,752**	1,729,544
Venture capital investments	9	**3,942,197**	4,133,010
Total investments		**6,834,102**	6,851,020
Property and equipment		**65,508**	68,745
Intangible assets		**42,943**	39,727
Right-of-use-assets		**102,644**	108,859
Net defined benefit asset		**176,257**	233,690
Other assets		**47,463**	62,775
Total assets		**42,814,650**	41,566,996
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable, accrued and other liabilities		**267,484**	311,267
Derivative liabilities		**20,522**	110
Borrowings			
Short-term notes		**15,701,841**	14,385,629
Long-term notes		**5,463,026**	5,707,297
Total borrowings		**21,164,867**	20,092,926
Lease liabilities			
Short-term lease liabilities		**14,539**	13,962
Long-term lease liabilities		**105,492**	111,362
Total lease liabilities		**120,031**	125,324
Net defined benefit liability		**203,545**	233,118
Expected credit losses on loan commitments and guarantees		**363,340**	315,778
Total liabilities		**22,139,789**	21,078,523
Equity			
Share capital	10	**11,946,900**	11,946,900
Contributed surplus		**27,778**	27,778
Retained earnings		**8,703,101**	8,445,369
Accumulated other comprehensive income		**(41,237)**	(15,864)
Equity attributable to BDC's shareholder		**20,636,542**	20,404,183
Non-controlling interests		**38,319**	84,290
Total equity		**20,674,861**	20,488,473
Total liabilities and equity		**42,814,650**	41,566,996

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 2022	Three months ended September 30 2021	Six months ended September 30 2022	Six months ended September 30 2021
Interest income	**564,337**	417,816	**1,043,734**	835,656
Interest expense	**153,851**	26,910	**221,609**	50,243
Net interest income	**410,486**	390,906	**822,125**	785,413
Net realized gains (losses) on investments	**29,696**	139,894	**56,213**	351,275
Revenue from Advisory Services	**8,836**	6,459	**15,940**	13,457
Fee and other income	**78,539**	27,231	**128,007**	48,060
Net revenue	**527,557**	564,490	**1,022,285**	1,198,205
Provision for expected credit losses	**(81,828)**	(41,773)	**(73,756)**	75,624
Net change in unrealized appreciation (depreciation) of investments	**(355,406)**	485,184	**(518,623)**	733,733
Net foreign exchange gains (losses)	**128,521**	35,011	**185,993**	20,221
Net gains (losses) on other financial instruments	**(1,544)**	222	**11,197**	578
Income before operating and administrative expenses	**217,300**	1,043,134	**627,096**	2,028,361
Salaries and benefits	**134,846**	116,927	**254,108**	231,224
Premises and equipment	**10,012**	10,316	**20,693**	20,125
Other expenses	**53,106**	36,478	**99,782**	72,280
Operating and administrative expenses	**197,964**	163,721	**374,583**	323,629
Net income	**19,336**	879,413	**252,513**	1,704,732
Net income (loss) attributable to:				
BDC's shareholder	**67,265**	850,431	**298,484**	1,676,190
Non-controlling interests	**(47,929)**	28,982	**(45,971)**	28,542
Net income	**19,336**	879,413	**252,513**	1,704,732

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)

	Three months ended September 30		Six months ended September 30	
(in thousands of Canadian dollars)	**2022**	2021	**2022**	2021
Net income	**19,336**	879,413	**252,513**	1,704,732
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	**(11,337)**	(2,491)	**(25,068)**	(5,327)
Net change in unrealized gains (losses) on cash flow hedges	**(167)**	(213)	**(305)**	(535)
Total items that may be reclassified subsequently to net income	**(11,504)**	(2,704)	**(25,373)**	(5,862)
Items that will not be reclassified to net income				
Remeasurements of net defined benefit asset or liability	**(113,198)**	97,391	**(40,752)**	115,933
Other comprehensive income (loss)	**(124,702)**	94,687	**(66,125)**	110,071
Total comprehensive income (loss)	**(105,366)**	974,100	**186,388**	1,814,803
Total comprehensive income (loss) attributable to:				
BDC's shareholder	**(57,437)**	945,118	**232,359**	1,786,261
Non-controlling interests	**(47,929)**	28,982	**(45,971)**	28,542
Total comprehensive income (loss)	**(105,366)**	974,100	**186,388**	1,814,803

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

Consolidated Statement of Changes in Equity

For the three months ended September 30
(unaudited)

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss): FVOCI assets [1]	Accumulated other comprehensive income (loss): Cash flow hedges	Accumulated other comprehensive income (loss): Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at June 30, 2022	**11,946,900**	**27,778**	**8,749,034**	**(31,123)**	**1,390**	**(29,733)**	**20,693,979**	**86,248**	**20,780,227**
Total comprehensive income (loss)									
Net income			**67,265**				**67,265**	**(47,929)**	**19,336**
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on fair value through other comprehensive income assets				**(11,337)**		**(11,337)**	**(11,337)**		**(11,337)**
Net change in unrealized gains (losses) on cash flow hedges					**(167)**	**(167)**	**(167)**		**(167)**
Remeasurements of net defined benefit asset or liability			**(113,198)**				**(113,198)**		**(113,198)**
Other comprehensive income (loss)	-	-	**(113,198)**	**(11,337)**	**(167)**	**(11,504)**	**(124,702)**	-	**(124,702)**
Total comprehensive income (loss)	-	-	**(45,933)**	**(11,337)**	**(167)**	**(11,504)**	**(57,437)**	**(47,929)**	**(105,366)**
Capital injections from non-controlling interests								-	-
Transactions with owner, recorded directly in equity	-	-	-	-	-	-	-	-	-
Balance as at September 30, 2022	**11,946,900**	**27,778**	**8,703,101**	**(42,460)**	**1,223**	**(41,237)**	**20,636,542**	**38,319**	**20,674,861**

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss): FVOCI assets [1]	Accumulated other comprehensive income (loss): Cash flow hedges	Accumulated other comprehensive income (loss): Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at 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

[1] Fair value through other comprehensive income assets

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

Consolidated Statement of Changes in Equity

For the six months ended September 30
(unaudited)

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss): FVOCI assets [1]	Accumulated other comprehensive income (loss): Cash flow hedges	Accumulated other comprehensive income (loss): Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at March 31, 2022	11,946,900	27,778	8,445,369	(17,392)	1,528	(15,864)	20,404,183	84,290	20,488,473
Total comprehensive income (loss)									
Net income			298,484				298,484	(45,971)	252,513
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on fair value through other comprehensive income assets				(25,068)		(25,068)	(25,068)		(25,068)
Net change in unrealized gains (losses) on cash flow hedges					(305)	(305)	(305)		(305)
Remeasurements of net defined benefit asset or liability			(40,752)				(40,752)		(40,752)
Other comprehensive income (loss)	-	-	(40,752)	(25,068)	(305)	(25,373)	(66,125)	-	(66,125)
Total comprehensive income (loss)	-	-	257,732	(25,068)	(305)	(25,373)	232,359	(45,971)	186,388
Dividends on common shares			-				-		-
Distributions to non-controlling interests								-	-
Capital injections from non-controlling interests								-	-
Issuance of common shares	-						-		-
Transactions with owner, recorded directly in equity	-	-	-	-	-	-	-	-	-
Balance as at September 30, 2022	11,946,900	27,778	8,703,101	(42,460)	1,223	(41,237)	20,636,542	38,319	20,674,861

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss): FVOCI assets [1]	Accumulated other comprehensive income (loss): Cash flow hedges	Accumulated other comprehensive income (loss): Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at March 31, 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 (loss)			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

(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 2022	Three months ended September 30 2021	Six months ended September 30 2022	Six months ended September 30 2021
Operating activities				
Net income	**19,336**	879,413	**252,513**	1,704,732
Adjustments to determine net cash flows				
Interest income	**(564,337)**	(417,816)	**(1,043,734)**	(835,656)
Interest expense	**153,413**	26,449	**220,732**	49,307
Interest on lease liabilities	**438**	461	**877**	936
Net realized losses (gains) on investments	**(29,696)**	(139,894)	**(56,213)**	(351,275)
Provision for expected credit losses	**81,828**	41,773	**73,756**	(75,624)
Net change in unrealized depreciation (appreciation) of investments	**355,406**	(485,184)	**518,623**	(733,733)
Net unrealized foreign exchange losses (gains)	**(151,656)**	(61,280)	**(207,415)**	(29,066)
Net unrealized losses (gains) on other financial instruments	**-**	(8)	**-**	(43)
Defined benefits funding below (in excess of) amounts expensed	**(6,729)**	(2,440)	**(12,891)**	779
Depreciation of property and equipment, and amortization of intangible assets	**5,145**	4,829	**10,190**	10,633
Depreciation of right-of-use assets	**3,348**	3,519	**6,751**	7,050
Other	**(7,616)**	(4,415)	**(7,719)**	(689)
Interest expense paid	**(140,537)**	(28,498)	**(201,578)**	(49,565)
Interest income received	**521,117**	399,332	**982,759**	808,570
Changes in operating assets and liabilities				
Net change in loans	**(827,527)**	(387,413)	**(1,331,434)**	(805,407)
Net change in accounts payable and accrued liabilities	**(6,681)**	(30,263)	**(43,783)**	(81,191)
Net change in other assets and other liabilities	**6,637**	(21,038)	**15,309**	(12,324)
Net cash flows provided (used) by operating activities	**(588,111)**	(222,473)	**(823,257)**	(392,566)
Investing activities				
Disbursements for asset-backed securities	**(142,061)**	(123,693)	**(283,194)**	(335,601)
Repayments and proceeds on sale of asset-backed securities	**118,919**	100,789	**231,450**	198,923
Disbursements for subordinate financing investments	**(121,302)**	(216,422)	**(328,183)**	(320,342)
Repayments of subordinate financing investments	**123,262**	216,826	**216,687**	316,966
Disbursements for venture capital investments	**(100,869)**	(94,907)	**(189,538)**	(227,105)
Proceeds on sale of venture capital investments	**37,755**	102,174	**78,503**	385,418
Acquisition of property and equipment	**(1,760)**	(1,413)	**(3,045)**	(4,192)
Acquisition of intangible assets	**(3,274)**	(2,118)	**(7,124)**	(3,343)
Net cash flows provided (used) by investing activities	**(89,330)**	(18,764)	**(284,444)**	10,724
Financing activities				
Net change in short-term notes	**794,500**	92,000	**1,297,500**	538,000
Issue of long-term notes	**90,000**	247,000	**345,000**	507,000
Repayment of long-term notes	**(225,000)**	(211,193)	**(590,000)**	(311,193)
Distributions to non-controlling interests	**-**	-	**-**	(4,981)
Capital injections from non-controlling interests	**-**	1,292	**-**	1,308
Issuance of common shares	**-**	50,000	**-**	435,000
Dividends paid on common shares	**-**	-	**-**	(735,000)
Payment of lease liabilities	**(3,155)**	(3,285)	**(6,706)**	(6,439)
Net cash flows provided (used) by financing activities	**656,345**	175,814	**1,045,794**	423,695
Net increase (decrease) in cash and cash equivalents	**(21,096)**	(65,423)	**(61,907)**	41,853
Cash and cash equivalents at beginning of period	**865,575**	907,791	**906,386**	800,515
Cash and cash equivalents at end of period	**844,479**	842,368	**844,479**	842,368

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 International Trade, Export Promotion, Small Business and Economic Development.

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.

BDC's condensed quarterly Consolidated Financial Statements follow the same basis of preparation as our audited Consolidated Financial Statements for the year ended March 31, 2022. They should be read in conjunction with the audited Consolidated Financial Statements for the year ended March 31, 2022 and the accompanying notes as set out on pages 74 to 146 of BDC's 2022 Annual Report.

The condensed quarterly Consolidated Financial Statements have also been prepared in accordance with the accounting policies BDC expects to use in its annual Consolidated Financial Statements for the year ending March 31, 2023. If BDC changes the application of these policies, it may result in a restatement of these condensed quarterly Consolidated Financial Statements.

The condensed quarterly Consolidated Financial Statements were approved for issue by the Board of Directors on November 16, 2022.

3.
Significant accounting policies

BDC's condensed quarterly Consolidated Financial Statements follow the same accounting policies as our audited Consolidated Financial Statements for the year ended March 31, 2022. These policies have been consistently applied to all periods presented in these condensed quarterly Consolidated Financial Statements and have been applied consistently by all entities consolidated by BDC.

These condensed quarterly Consolidated Financial Statements must be read in conjunction with BDC's 2022 Annual Report and the accompanying notes, as set out on pages 74 to 146 of our 2022 Annual Report.

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.

For information about the significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the condensed quarterly Consolidated Financial Statements, refer to page 91 of our 2022 Annual Report.

The anticipated downturn in the Canadian and global economy has cast additional uncertainty on the assumptions used by management in making its judgments and estimates. The geopolitical tensions and shutdowns in China due to the pandemic exacerbated labour and supply chains shortages leading to rising inflation and declines in public markets. In an attempt to reduce inflation, the Bank of Canada has been raising its policy rate aggressively. BDC has credit exposures to businesses that are impacted, either directly or indirectly, by higher energy costs, commodity prices, or disruption within their supply chains. It is difficult to reliably estimate the length and severity of these developments and the impact on the financial results and condition of BDC in future periods. Given that the full extent of the impact of rising interest rates, geopolitical tensions, and supply chain disruptions will have on the global economy and BDC's business is uncertain and not predictable at this time, there is a higher level of uncertainty with respect to management's judgments and estimates.

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.

				September 30, 2022
	Fair value measurements using			**Total**
	Level 1	**Level 2**	**Level 3**	**fair value**
Assets				
Derivative assets	**-**	**1**	**-**	**1**
Asset-backed securities	**-**	**1,015,153**	**-**	**1,015,153**
Subordinate financing investments	**70,481**	**-**	**1,806,271**	**1,876,752**
Venture capital investments	**165,323**	**-**	**3,776,874**	**3,942,197**
	235,804	**1,015,154**	**5,583,145**	**6,834,103**
Liabilities				
Derivative liabilities	**-**	**20,522**	**-**	**20,522**
	-	**20,522**	**-**	**20,522**

				March 31, 2022
	Fair value measurements using			Total
	Level 1	Level 2	Level 3	fair value
Assets				
Derivative assets	-	12,277	-	12,277
Asset-backed securities	-	988,466	-	988,466
Subordinate financing investments	109,399	-	1,620,145	1,729,544
Venture capital investments	115,309	-	4,017,701	4,133,010
	224,708	1,000,743	5,637,846	6,863,297
Liabilities				
Derivative liabilities	-	110	-	110
	-	110	-	110

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, 2022	**1,620,145**	**4,017,701**	**5,637,846**
Net realized gains (losses) on investments	**16,638**	**15,117**	**31,755**
Net change in unrealized appreciation (depreciation) of investments	**30,251**	**(512,531)**	**(482,280)**
Net unrealized foreign exchange gains (losses) on investments	**-**	**164,862**	**164,862**
Disbursements for investments	**328,098**	**189,538**	**517,636**
Repayments of investments and other	**(188,861)**	**(49,861)**	**(238,722)**
Transfers from level 3 to level 1	**-**	**(47,952)**	**(47,952)**
Fair value as at September 30, 2022	**1,806,271**	**3,776,874**	**5,583,145**

	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	172,130	308,272	480,402
Net change in unrealized appreciation (depreciation) of investments	(92,524)	969,134	876,610
Net unrealized foreign exchange gains (losses) on investments	-	(12,861)	(12,861)
Disbursements for investments	622,673	513,384	1,136,057
Repayments of investments and other	(389,785)	(524,618)	(914,403)
Transfers from level 3 to level 1	(56,551)	(151,223)	(207,774)
Fair value as at March 31, 2022	1,620,145	4,017,701	5,637,846

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	**1,030,533**	**5,006,297**	**28,689,844**	**34,726,674**	**(746,728)**	**33,979,946**
Impaired	**49,263**	**149,331**	**862,439**	**1,061,033**	**(339,726)**	**721,307**
Loans as at September 30, 2022	**1,079,796**	**5,155,628**	**29,552,283**	**35,787,707**	**(1,086,454)**	**34,701,253**

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

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, 2022	**311,856**	**455,973**	**343,413**	**1,111,242**
Provision for expected credit losses				
Transfer to Stage 1[1]	**96,716**	**(95,618)**	**(1,098)**	**-**
Transfer to Stage 2[1]	**(70,648)**	**90,725**	**(20,077)**	**-**
Transfer to Stage 3[1]	**(678)**	**(20,374)**	**21,052**	**-**
Net remeasurement of allowance for expected credit losses[2]	**(113,712)**	**40,403**	**26,748**	**(46,561)**
Financial assets that have been fully repaid	**(16,776)**	**(38,285)**	**(11,562)**	**(66,623)**
New financial assets originated	**99,648**	**6,435**	**10,844**	**116,927**
Write-offs	**-**	**-**	**(48,101)**	**(48,101)**
Recoveries	**-**	**-**	**14,487**	**14,487**
Foreign exchange and other movements	**318**	**745**	**4,020**	**5,083**
Balance as at September 30, 2022	**306,724**	**440,004**	**339,726**	**1,086,454**

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

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

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

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 $4,416,186 as at September 30, 2022 ($1,211,655 at fixed rates; $3,204,531 at floating rates). The weighted average effective interest rate was 6.12% on loan commitments (4.09% as at March 31, 2022).

		September 30, 2022		March 31, 2022
Geographic distribution	**Outstanding**	**Commitments**	Outstanding	Commitments
Newfoundland and Labrador	**809,780**	**38,441**	823,485	44,346
Prince Edward Island	**73,537**	**4,876**	73,912	2,927
Nova Scotia	**707,003**	**66,320**	681,469	49,005
New Brunswick	**510,713**	**46,573**	505,189	51,533
Quebec	**11,368,102**	**1,406,915**	10,790,667	1,292,085
Ontario	**9,971,523**	**1,167,840**	9,583,632	964,543
Manitoba	**945,342**	**118,111**	919,966	96,938
Saskatchewan	**977,964**	**124,372**	920,773	113,158
Alberta	**4,890,277**	**878,785**	4,885,030	585,077
British Columbia	**5,335,348**	**545,026**	5,011,952	492,748
Yukon	**110,367**	**10,996**	109,502	2,315
Northwest Territories and Nunavut	**87,751**	**7,931**	89,182	4,040
Total loans outstanding(1)	**35,787,707**	**4,416,186**	34,394,759	3,698,715

		September 30, 2022		March 31, 2022
Industry sector	**Outstanding**	**Commitments**	Outstanding	Commitments
Manufacturing	**7,557,685**	**1,096,309**	7,259,967	926,017
Wholesale and retail trade	**7,261,307**	**899,096**	6,850,826	799,756
Service industries	**5,572,988**	**573,734**	5,288,151	475,463
Tourism	**3,541,492**	**198,325**	3,641,436	155,837
Commercial properties	**3,669,393**	**186,363**	3,507,522	240,329
Construction	**3,401,365**	**439,771**	3,134,407	362,810
Transportation and storage	**2,225,887**	**265,508**	2,135,019	191,234
Resources	**1,302,965**	**597,890**	1,384,880	380,367
Other	**1,254,625**	**159,190**	1,192,551	166,902
Total loans outstanding(1)	**35,787,707**	**4,416,186**	34,394,759	3,698,715

(1) Loan commitments included $4,408,193 in the Financing segment, and $7,993 in the Credit Availability Program segment as at September 30, 2022 ($3,676,540 and $22,175, respectively, as at March 31, 2022).

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 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, 2022	**47,310**	**9,040**	**-**	**56,350**
Provision for expected credit losses				
Transfer to Stage 1[1]	**2,182**	**(2,182)**	**-**	**-**
Transfer to Stage 2[1]	**(5,679)**	**5,679**	**-**	**-**
Net remeasurement of the allowance for expected credit losses[2]	**(4,512)**	**8,499**	**-**	**3,987**
Net increase (decrease) in commitments	**15,622**	**(9,087)**	**-**	**6,535**
Foreign exchange and other movements	**28**	**15**	**-**	**43**
Balance as at September 30, 2022	**54,951**	**11,964**	**-**	**66,915**

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

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

(2) Includes the net remeasurement of the allowance following a transfer between stages, changes in commitment 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, 2022 or March 31, 2022. No allowances for expected credit losses were recorded for disbursed and undisbursed ABS at fair value through other comprehensive income as at September 30, 2022 or March 31, 2022.

	September 30, 2022	March 31, 2022
Fair value through other comprehensive income		
Principal amount	**1,043,010**	992,833
Cumulative fair value appreciation (depreciation)	**(42,459)**	(17,391)
Carrying value	**1,000,551**	975,442
Yield	**2.69%**	2.04%
Fair value through profit or loss		
Principal amount	**14,982**	13,157
Cumulative fair value appreciation (depreciation)	**(380)**	(133)
Carrying value	**14,602**	13,024
Yield	**7.69%**	6.98%
Asset-backed securities	**1,015,153**	988,466

Committed amounts of authorized asset-backed securities were $753,093 as at September 30, 2022 ($439,836 as at March 31, 2022).

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, 2022	**165,020**	**1,185,777**	**458,995**	**1,809,792**	**1,876,752**
As at March 31, 2022	149,508	1,087,277	422,948	1,659,733	1,729,544

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 $217,419 as at September 30, 2022 ($102,456 at fixed rates; $114,963 at floating rates). The weighted average effective interest rate was 9.7% on subordinate financing commitments (8.3% as at March 31, 2022), excluding non-interest return.

			September 30, 2022			March 31, 2022
Geographic distribution	**Fair value**	**Cost**	**Commitments**	Fair value	Cost	Commitments
Newfoundland and Labrador	**27,414**	**33,487**	**5,025**	23,007	27,456	3,000
Prince Edward Island	**-**	**-**	**-**	6,304	6,516	-
Nova Scotia	**27,722**	**31,000**	**1,000**	23,385	23,576	15,000
New Brunswick	**13,988**	**14,108**	**3,900**	14,750	15,117	1,900
Quebec	**580,942**	**542,124**	**69,181**	618,389	543,257	54,323
Ontario	**621,040**	**667,839**	**92,196**	549,635	579,693	102,235
Manitoba	**26,876**	**28,544**	**1,500**	4,821	6,849	-
Saskatchewan	**52,783**	**50,472**	**-**	57,736	52,252	-
Alberta	**246,083**	**220,489**	**34,280**	216,648	228,133	20,800
British Columbia	**279,238**	**221,075**	**8,137**	214,073	176,089	20,511
Yukon	**-**	**-**	**2,200**	-	-	-
Northwest Territories and Nunavut	**666**	**654**	**-**	796	795	-
Subordinate financing investments (1)	**1,876,752**	**1,809,792**	**217,419**	1,729,544	1,659,733	217,769

			September 30, 2022			March 31, 2022
Industry sector	**Fair value**	**Cost**	**Commitments**	Fair value	Cost	Commitments
Manufacturing	**587,093**	**528,071**	**44,878**	539,559	503,813	54,101
Service industries	**531,748**	**523,054**	**67,418**	472,191	462,163	57,569
Wholesale and retail trade	**248,825**	**236,149**	**23,781**	241,039	221,459	48,125
Resources	**179,887**	**189,527**	**29,179**	173,857	187,906	22,984
Information industries	**172,095**	**175,305**	**37,246**	152,120	150,928	29,540
Construction	**78,929**	**79,088**	**12,685**	58,940	61,166	2,650
Transportation and storage	**48,179**	**44,991**	**732**	43,955	46,767	300
Educational services	**15,642**	**16,340**	**-**	11,258	11,823	-
Tourism	**8,588**	**9,513**	**1,500**	30,405	6,256	2,500
Other	**5,766**	**7,754**	**-**	6,220	7,452	-
Subordinate financing investments (1)	**1,876,752**	**1,809,792**	**217,419**	1,729,544	1,659,733	217,769

(1) Subordinate financing commitments included $1,855 in the Financing segment, $141,598 in the Growth & Transition Capital segment, $26,134 in the Venture Capital segment, $47,832 in the Capital Incentive Programs segment and nil in the Credit Availability Program segment as at September 30, 2022 ($2,700, $132,882, $29,192, $52,995 and nil, respectively, as at March 31, 2022).

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 and segment.

			September 30, 2022			March 31, 2022
Investment type	**Fair value**	**Cost**	**Commitments**	Fair value	Cost	Commitments
Direct investments	**1,758,539**	**1,087,855**	**38,973**	1,941,156	1,011,375	26,836
Indirect investments in funds [1]	**2,183,658**	**1,174,923**	**938,559**	2,191,854	1,100,547	820,445
Venture capital investments [2]	**3,942,197**	**2,262,778**	**977,532**	4,133,010	2,111,922	847,281

(1) As at September 30, 2022, BDC has invested in 124 funds through its VC segment and 24 funds through its CIP segment (113 and 24 funds, respectively, as at March 31, 2022).

(2) Venture Capital commitments included $689,291 in the Venture Capital segment, $285,362 in the Capital Incentive Programs segment, and $2,879 in the Credit Availability Program segment as at September 30, 2022 ($517,584, $327,247, and $2,449, respectively, as at March 31, 2022).

Concentrations of total venture capital investments and commitments

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

			September 30, 2022			March 31, 2022
Industry sector	**Fair value**	**Cost**	**Commitments**	Fair value	Cost	Commitments
Information technology	**935,429**	**592,473**	**30,427**	1,039,452	518,973	20,518
Service industries	**236,869**	**44,403**	**-**	229,954	44,853	-
Communications	**217,958**	**119,421**	**957**	227,157	126,245	603
Industrial	**144,284**	**82,805**	**150**	225,438	79,420	-
Biotechnology and pharmacology	**66,059**	**59,890**	**4,230**	54,090	89,597	50
Electronics	**60,874**	**90,439**	**1,510**	54,176	57,230	4,230
Medical and health	**43,248**	**46,312**	**1,002**	51,362	46,312	938
Energy	**31,183**	**21,919**	**497**	28,691	20,582	497
Other	**22,635**	**30,193**	**200**	30,836	28,163	-
Total direct investments	**1,758,539**	**1,087,855**	**38,973**	1,941,156	1,011,375	26,836

10.

Share capital

An unlimited number of common shares, having a par value of $100 each, is authorized. As at September 30, 2022, there were 119,469,000 common shares outstanding (119,469,000 as at March 31, 2022).

On June 8, 2022, BDC's Board of Director authorized the repurchase of $5.0 billion of its common shares.

On July 13, 2022, the Minister of Finance approved BDC's issuance of 3,430,000 common shares for cash proceeds of $343.0 million, which represents a capital injection in support of the Canada Digital Adoption Program.

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 (loss).

The amount of paid-in-capital, together with any contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments), must not at any time exceed $20.0 billion per the *Business Development Bank of Canada Act, 1995* amended in March 2020.

During the six months ended September 30, 2022 and the year ended March 31, 2022, 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.

Available capital

Available capital is composed of equity attributable to BDC's shareholder (share capital, contributed surplus and retained earnings) and adjustments aligned with industry best practices.

Required capital

BDC employs rigorous models to assess demand for capital arising from credit and investments, operational, business and market risk. Economic capital is a measure of risk used to determine the amount of capital required to ensure a financial institution's solvency given its risk profile.

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 quasi-equity financing to support the growth and transition projects of SMEs.
- Venture Capital: includes investments in Venture Capital (VC), Growth Equity (GE), Intellectual Property (IP) and the new Climate Tech Fund II. 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 a focus on mid-size businesses. The IP Fund provides financing targeted to

companies that are rich in intellectual property. The new Climate Tech Fund II invests in Canadian cleantech companies to contribute to Canada's transition to a sustainable, low-carbon economy.

- Capital Incentive Programs: includes Venture Capital Action Plan (VCAP), Venture Capital Catalyst Initiative (VCCI), Cleantech Practice and Indigenous Growth Fund (IGF). VCAP is a federal government initiative to increase private sector venture capital financing for high-potential, innovative Canadian businesses. VCAP invests primarily in early-stage and mid-stage venture capital funds, and directly in companies across Canada. It supports the creation of large private sector-led funds of funds and also assists existing high-performing funds in partnership with institutional investors, corporate strategic investors and interested provinces. VCCI is also a government-sponsored initiative whereby capital is made available through BDC over three years to provide late-stage venture capital to support the growth of innovative start-ups. Through an envelope entrusted by the federal government, Cleantech Practice provides subordinate financing and venture capital investments to promising clean technology firms to help build globally competitive and commercially sustainable Canadian cleantech firms. IGF is an investment fund that will provide access to the capital to Indigenous entrepreneurs across all industries via business loans from a network of Aboriginal Financial Institutions throughout the country.
- Credit Availability Program: with the support of our sole shareholder, the Government of Canada, we launched a series of measures to help Canadian businesses during the COVID-19 crisis. These measures are combined under this segment to distinguish COVID-19 related measures from our core activities. The initiatives extend eligibility criteria to ensure we are meeting the urgent needs of as many viable businesses as possible. They include the Business Credit Availability Program, which is delivered in collaboration with private sector lenders, Highly Affected Sectors Credit Availability Program under which, financial institutions provide loans 100% guaranteed by BDC and measures delivered directly by BDC. As small businesses adapt to the lasting impacts of the COVID-19 pandemic, our shareholder launched the Canada Digital Adoption Program (CDAP) with our support to help small and medium-sized enterprises adopt digital technologies and stay competitive by providing access to funding and expertise.

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.

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

Three months ended September 30, 2022

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Capital Incentive Programs	Credit Availability Program
Interest income	564,337	499,070	-	28,046	597	1,698	34,926
Interest expense	153,851	138,525	-	4,090	42	-	11,194
Net interest income	410,486	360,545	-	23,956	555	1,698	23,732
Net realized gains (losses) on investments	29,696	23	-	9,327	27,487	(7,313)	172
Revenue from Advisory Services	8,836	-	8,836	-	-	-	-
Fee and other income	78,539	6,345	-	6,586	1,887	3,737	59,984
Net revenue	527,557	366,913	8,836	39,869	29,929	(1,878)	83,888
Provision for expected credit losses	(81,828)	(75,798)	-	-	-	-	(6,030)
Net change in unrealized appreciation (depreciation) of investments	(355,406)	1,379	-	(26,630)	(366,827)	48,090	(11,418)
Net foreign exchange gains (losses)	128,521	9,016	-	(2,817)	117,724	4,041	557
Net gains (losses) on other financial instruments	(1,544)	167	-	-	-	-	(1,711)
Income (loss) before operating and administrative expenses	217,300	301,677	8,836	10,422	(219,174)	50,253	65,286
Salaries and benefits	134,846	95,706	11,853	10,463	11,511	1,096	4,217
Premises and equipment	10,012	7,898	675	399	497	167	376
Other expenses	53,106	41,894	5,932	1,098	2,622	336	1,224
Operating and administrative expenses	197,964	145,498	18,460	11,960	14,630	1,599	5,817
Net income (loss)	19,336	156,179	(9,624)	(1,538)	(233,804)	48,654	59,469
Net income (loss) attributable to:							
BDC's shareholder	67,265	156,179	(9,624)	12,191	(199,604)	48,654	59,469
Non-controlling interests	(47,929)	-	-	(13,729)	(34,200)	-	-
Net income (loss)	19,336	156,179	(9,624)	(1,538)	(233,804)	48,654	59,469

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)

							Six months ended September 30, 2022
	BDC	**Financing**	**Advisory Services**	**Growth & Transition Capital**	**Venture Capital**	**Capital Incentive Programs**	**Credit Availability Program**
Interest income	**1,043,734**	**914,745**	**-**	**57,632**	**1,057**	**3,682**	**66,618**
Interest expense	**221,609**	**199,697**	**-**	**6,039**	**64**	**-**	**15,809**
Net interest income	**822,125**	**715,048**	**-**	**51,593**	**993**	**3,682**	**50,809**
Net realized gains (losses) on investments	**56,213**	**(476)**	**-**	**11,002**	**53,665**	**(7,256)**	**(722)**
Revenue from Advisory Services	**15,940**	**-**	**15,940**	**-**	**-**	**-**	**-**
Fee and other income	**128,007**	**13,363**	**-**	**15,589**	**2,706**	**5,361**	**90,988**
Net revenue	**1,022,285**	**727,935**	**15,940**	**78,184**	**57,364**	**1,787**	**141,075**
Provision for expected credit losses	**(73,756)**	**(50,206)**	**-**	**-**	**-**	**-**	**(23,550)**
Net change in unrealized appreciation (depreciation) of investments	**(518,623)**	**1,235**	**-**	**(27,231)**	**(468,363)**	**(12,594)**	**(11,670)**
Net foreign exchange gains (losses)	**185,993**	**13,740**	**-**	**(4,908)**	**170,639**	**5,736**	**786**
Net gains (losses) on other financial instruments	**11,197**	**13,117**	**-**	**-**	**-**	**-**	**(1,920)**
Income (loss) before operating and administrative expenses	**627,096**	**705,821**	**15,940**	**46,045**	**(240,360)**	**(5,071)**	**104,721**
Salaries and benefits	**254,108**	**179,640**	**22,889**	**18,660**	**21,734**	**2,297**	**8,888**
Premises and equipment	**20,693**	**16,056**	**1,406**	**811**	**1,371**	**261**	**788**
Other expenses	**99,782**	**77,851**	**10,950**	**2,227**	**5,383**	**694**	**2,677**
Operating and administrative expenses	**374,583**	**273,547**	**35,245**	**21,698**	**28,488**	**3,252**	**12,353**
Net income (loss)	**252,513**	**432,274**	**(19,305)**	**24,347**	**(268,848)**	**(8,323)**	**92,368**
Net income (loss) attributable to:							
BDC's shareholder	**298,484**	**432,274**	**(19,305)**	**37,609**	**(236,139)**	**(8,323)**	**92,368**
Non-controlling interests	**(45,971)**	**-**	**-**	**(13,262)**	**(32,709)**	**-**	**-**
Net income (loss)	**252,513**	**432,274**	**(19,305)**	**24,347**	**(268,848)**	**(8,323)**	**92,368**
Business segment portfolio as at September 30, 2022							
Loans, net of allowance for expected credit losses	**34,701,253**	**32,287,691**	**-**	**-**	**-**	**-**	**2,413,562**
Asset-backed securities	**1,015,153**	**1,015,153**	**-**	**-**	**-**	**-**	**-**
Subordinate financing investments	**1,876,752**	**11,934**	**-**	**1,102,298**	**311,384**	**439,239**	**11,897**
Venture capital investments	**3,942,197**	**-**	**-**	**-**	**2,791,774**	**1,006,736**	**143,687**
Total portfolio	**41,535,355**	**33,314,778**	**-**	**1,102,298**	**3,103,158**	**1,445,975**	**2,569,146**

							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

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 $3,571.7 million as at September 30, 2022 ($3,455.7 million as at March 31, 2022) and the existing terms expire within an average of 102 months (within 106 months as at March 31, 2022).

As at September 30, 2022 an amount of $2.8 million of claims payable under these guarantees was recognized in BDC’s Consolidated Statement of Financial Position ($2.2 million as at March 31, 2022).

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

				September 30, 2022
Allowance for expected credit losses on loan guarantees	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2022	**84,143**	**151,067**	**24,218**	**259,428**
Provision for expected credit losses				
Transfer to Stage 1[1]	**56,687**	**(53,238)**	**(3,449)**	**-**
Transfer to Stage 2[1]	**(30,021)**	**35,850**	**(5,829)**	**-**
Transfer to Stage 3[1]	**(283)**	**(26,901)**	**27,184**	**-**
Net remeasurement of the allowance for expected credit losses[2]	**(60,472)**	**67,851**	**19,374**	**26,753**
Net increase (decrease) in guarantees	**5,078**	**5,311**	**(145)**	**10,244**
Balance as at September 30, 2022	**55,132**	**179,940**	**61,353**	**296,425**

				March 31, 2022
Allowance for expected credit losses on loan guarantees	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2021	12,659	12,800	-	25,459
Provision for expected credit losses				
Transfer to Stage 1[1]	74,706	(74,112)	(594)	-
Transfer to Stage 2[1]	(38,913)	39,235	(322)	-
Transfer to Stage 3[1]	(507)	(5,984)	6,491	-
Net remeasurement of the allowance for expected credit losses[2]	(87,531)	72,304	18,498	3,271
Net increase (decrease) in guarantees	123,729	106,824	145	230,698
Balance as at March 31, 2022	84,143	151,067	24,218	259,428

(1) Provides the cumulative movement from the previous month’s allowance for expected credit losses on loan guarantees due to transfers between 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, 2022, BDC had $15,701.8 million outstanding in short-term notes and $5,463.0 million in long-term notes due to His Majesty the King in Right of Canada acting through the Minister of Finance ($14,385.6 million in short-term notes and $5,707.3 million in long-term notes as at March 31, 2022).

BDC recorded $105.7 million in interest expense, related to the borrowings from the Minister of Finance, for the quarter and $155.2 million for the six months ended September 30, 2022. Last year's comparative figures for the same periods were $23.3 million and $43.9 million, respectively.

In addition, $321.0 million in borrowings from the Minister of Finance were repurchased in the first six months of fiscal 2023. This resulted in a gain of $12.8 million on the fixed rate debt for the first six months of fiscal 2023 ($50.0 million in borrowings were repurchased during the same period last year which did not result in any gain or loss).

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

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