2024
Financial Report

First Quarter

June 30, 2023

Executive Summary

Canadian economic outlook

Since the beginning of 2023, global economic growth has held up well in the face of rising interest rates in many countries. Inflation has remained stubbornly high around the world amid economic and geopolitical turbulence, forcing central banks worldwide to tighten credit conditions. Despite the headwinds, economies across the globe have proven to be surprisingly resilient with Canada and the United States performing particularly well.

The Canadian economy grew at an annualized rate of 3.1% in the first quarter of the calendar year. Exports and household consumption were leading sources of growth while residential and business investment declined. In the second quarter, the Canadian economy see-sawed with preliminary results suggesting growth was flat in April but rebounded strongly in May.

The resilience of the Canadian economy was mostly supported by strong population growth and a still solid labour market. Canada's population increased at a fast pace at the beginning of 2023, due to renewed inflows of newcomers following the pandemic. This contributed to a pick-up in consumer demand and boosted the labour supply.

About 290,000 jobs were created in the first six months of the year. Net job losses in May were more than offset in June when about 60,000 jobs were added to the economy. The unemployment rate edged higher in June to 5.4% but remained low by historical standards. The labour market remained tight during the quarter with job vacancies increasing by almost 30,000 in April to nearly 820,000. In response, employers paid higher wages, adding pressure to business costs.

As households continued to adapt to previous rate hikes, the Bank of Canada kept up its battle against inflation. The consumer price index (CPI) increased at an annual pace of 4.4 % in April, similar to the rate of 4.3% in March. This marked the first increase in the CPI since it peaked in June of 2022. However, inflation quickly returned to its downward trend in May, decreasing to 3.4% and then to 2.8% in June.

Faced with inflation still well above its 2% target and a tight labour market, the Bank of Canada made a significant course correction in early June when it raised its policy interest rate for the first time since announcing a pause in January. The rate went from 4.5% in January to 4.75% in June, and then the central bank increased it by another 25 basis points in July to 5.0%, a level not seen since 2001.

The pause in rate increases seems to have given consumers time to adjust to higher debt servicing costs and encouraged them to increase their spending while businesses regained some confidence over the second quarter.

With rates rising again and a presumption that levels will stay high for longer, businesses will likely face slowing demand and increasing costs in coming months. Rekindled uncertainty has already dampened business optimism and weakened investment intentions.

All in all, and despite ongoing economic uncertainty and persistently high interest rates, growth for 2023 as a whole should come in at 1.0% as economic activity slows in the second half of the year.

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 10, *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 measures ended in fiscal 2022. Our shareholder launched CDAP with our support in March 2022 to help small businesses grow their online presence and adopt digital technologies. All these measures have been grouped together under CAP to distinguish them from BDC's core activities.

Core activities

The first quarter of fiscal 2024 reflects the continued impacts of an uncertain economic environment resulting from high inflation and rising interest rates.

Financing clients accepted a total of $2.9 billion in loans for the three-month period ended June 30, 2023, compared to $3.5 billion for the same period last year. The volume of Financing's acceptances decreased in the first quarter of fiscal 2024 compared to the same period last year as higher interest rates kept the pressure on business costs and entrepreneurs remained cautious about making additional investments in their businesses. Financing's loans portfolio[1], excluding CAP loans, stood at $34.8 billion as at June 30, 2023.

Strong results were achieved by Advisory Services in the first quarter of fiscal 2024 with net contracts signed amounting to $12.4 million, compared to $11.8 million for the same period last year, representing an increase of 5.1%. This increase was mainly driven by the services offered to support entrepreneurs in their digital adoption plan under CDAP for which BDC's Advisory Services team is one of the approved partners.

GTC clients accepted $94.2 million in debt investments in the first three months of the fiscal year compared to $156.1 million for the same period last year. Acceptances decreased in the first quarter of fiscal 2024 compared to the same period last year stemming mainly from the slow-down in demand for GTC's offering due to economic uncertainties which negatively impacted mergers and acquisitions as well as business transition transactions.

VC authorizations for the first quarter of fiscal 2024 totalled $83.3 million compared to $178.2 million for the same period last year. The decrease in authorizations was driven by lower indirect investments mainly explained by declines in Canadian venture capital activity and a slower pace of fundraising.

On April 18, 2023, BDC announced the creation of its new $150 million Sustainability Venture Fund, which is a key component of BDC's commitment to sustainability and part of its contribution to help advance Canada's 2050 net-zero ambition. The Fund will be dedicated to making equity investments in Canadian companies developing sustainability-enhancing technology systems with the potential to deliver indirect GHG emission reductions.

On behalf of the Government of Canada, BDC continued to manage 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, $450 million for the renewed Venture Capital Catalyst Initiative (VCCI II) to support private sector funds of funds and funds focused on investments in life science technologies and entrepreneurs from underrepresented groups,

[1] Net of allowance for expected credit losses.

$600 million for Cleantech Practice and $100 million for Indigenous Growth Fund (IGF).

On July 12, 2023, BDC received $350.0 million in cash for the issuance of 3,500,000 common shares, which represents a capital injection in support of the renewed Venture Capital Catalyst Initiative.

CIP had $52.0 million in authorizations in the first quarter of fiscal 2024, compared to $5.3 million for the same period last year. As the envelopes for VCAP and VCCI were fully committed in F2021, the authorizations in CIP are fully attributable to VCCI II in the amount of $30.0 million and to Cleantech Practice in the amount of $22.0 million.

Credit Availability Program (CAP)

The carrying amount of CAP's loan and investment portfolio stood at $1.8 billion as at June 30, 2023, compared to $2.8 billion for the same period last year. The portfolio is decreasing as CAP's COVID-19 relief measures ended in fiscal 2022 and only the CDAP program remains active.

CDAP acceptances amounted to $56.1 million for the first quarter of fiscal 2024, a significant increase compared to the same period last year as the first quarter of fiscal 2023 was the first quarter following the launch of the program. To receive BDC financing under the program, entrepreneurs must finalize a digital plan, receive approval from Innovation, Science and Economic Development Canada (ISED) as well as a referral to BDC.

HASCAP guarantee acceptances amounted to $3.7 billion since the inception of the program, which is now closed for new authorizations. The actual exposure under the HASCAP guarantee program totalled $3.2 billion as at June 30, 2023, compared to $3.6 billion for the same period last year.

Financial results overview

Consolidated net income amounted to $124.0 million for the first quarter of fiscal 2024, consisting of net income of $147.9 million for the core business and a net loss of $23.9 million for CAP. In comparison, BDC reported consolidated net income of $233.2 million for the same period last year, consisting of net income of $200.3 million for the core business and net income of $32.9 million for CAP. The decrease in consolidated net income is mainly attributable to higher provision for expected credit losses on Financing's and CAP's loan portfolios, and higher net foreign exchange losses on VC's investment portfolio, offset by lower net change in unrealized depreciation of VC and CIP investments.

A $337.0 million dividend was paid in June 2023 to our sole shareholder, the Government of Canada.

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

BDC is the bank for Canadian entrepreneurs. Its purpose is to support small and mid-sized businesses in all industries and at all stages of growth. Whether business owners want to take on new markets, make their operations more efficient, acquire another business or everything in between, BDC provides access to financing, as well as advisory services to meet their needs. BDC's investment arm, BDC Capital, offers a wide range of risk capital solutions. 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 three months ended June 30, 2023. 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 Treasury Board of Canada's Directive on Accounting Standards: *GC 5200 Crown Corporations Quarterly Financial Reports*. This analysis should also be read in conjunction with BDC's 2023 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 financial 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 period ended June 30, 2023, compared to the corresponding period 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 June 30	
($ in millions)	**F2024**	F2023
Financing	**171.8**	276.1
Advisory Services	**(9.0)**	(9.7)
Growth & Transition Capital	**17.3**	25.9
Venture Capital	**(38.3)**	(35.0)
Capital Incentive Programs	**6.1**	(57.0)
Core net income	**147.9**	200.3
Credit Availability Program	**(23.9)**	32.9
Net income (loss)	**124.0**	233.2
Net income (loss) attributable to:		
BDC's shareholder	**125.7**	231.2
Non-controlling interests	**(1.7)**	2.0
Net income (loss)	**124.0**	233.2

Three months ended June 30

For the first quarter of fiscal 2024, BDC generated consolidated net income of $124.0 million, comprising $125.7 million of net income attributable to BDC's shareholder and a net loss of $1.7 million attributable to non-controlling interests. For the equivalent period last year, consolidated net income of $233.2 million included $231.2 million of net income attributable to BDC's shareholder and net income of $2.0 million attributable to non-controlling interests.

BDC's consolidated Core net income was $147.9 million compared to $200.3 million reported for the same period last year. The decrease in net income was mainly attributable to higher provision for expected credit losses on the loan portfolio and higher net foreign exchange losses on the investment portfolio, offset by lower net change in unrealized depreciation of VC and CIP investments.

CAP reported a consolidated net loss of $23.9 million for the first quarter of fiscal 2024, compared to net income of $32.9 million for the same period last year, due to the higher provision for expected credit losses and higher net losses on other financial instruments, offset by higher net interest income.

Consolidated comprehensive income

	Three months ended June 30	
($ in millions)	**F2024**	F2023
Net income (loss)	**124.0**	233.2
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net income		
Net change in unrealized gains (losses) on FVOCI assets	**(8.9)**	(13.7)
Net change in unrealized gains (losses) on cash flow hedges	**-**	(0.1)
Total items that may be reclassified subsequently to net income	**(8.9)**	(13.8)
Items that will not be reclassified to net income		
Remeasurements of net defined benefit asset or liability	**(8.0)**	72.4
Other comprehensive income (loss)	**(16.9)**	58.6
Total comprehensive income (loss)	**107.1**	291.8
Total comprehensive income (loss) attributable to:		
BDC's shareholder	**108.8**	289.8
Non-controlling interests	**(1.7)**	2.0
Total comprehensive income (loss)	**107.1**	291.8

Three months ended June 30

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

BDC recorded consolidated other comprehensive loss of $16.9 million for the first quarter ended June 30, 2023, compared to consolidated other comprehensive income of $58.6 million for the same period last year. The deterioration in consolidated other comprehensive income for the first quarter of fiscal 2024 was mainly attributable to a remeasurement loss of $8.0 million on the net defined benefit asset or liability, compared to a remeasurement gain of $72.4 million on the net defined benefit asset or liability for the same period last year. This loss was due to lower rates used to value the net defined benefit liability, which was partially offset by higher returns on plan assets.

Financing results

($ in millions)	Three months ended June 30 F2024	F2023
Net interest income	**389.9**	354.5
Fee and other income	**7.1**	7.0
Provision for expected credit losses	**(82.3)**	25.6
Net change in unrealized appreciation (depreciation) of investments	**(0.1)**	(0.1)
Net realized gains (losses) on investments	**-**	(0.5)
Net foreign exchange gains (losses)	**(3.6)**	4.7
Net gains (losses) on other financial instruments	**-**	13.0
Income before operating and administrative expenses	**311.0**	404.2
Operating and administrative expenses	**139.2**	128.1
Net income (loss) from Financing	**171.8**	276.1

As % of average portfolio	Three months ended June 30 F2024	F2023
Net interest income	**4.3**	4.3
Fee and other income	**0.1**	0.1
Provision for expected credit losses	**(0.9)**	0.3
Net foreign exchange gains (losses)	**-**	0.1
Net gains (losses) on other financial instruments	**-**	0.1
Income before operating and administrative expenses	**3.5**	4.9
Operating and administrative expenses	**1.5**	1.6
Net income (loss) from Financing	**2.0**	3.3

Three months ended June 30

Net income from Financing was $171.8 million for the first quarter of fiscal 2024 compared to net income of $276.1 million for the same period last year. The decrease in net income from Financing for the first quarter of fiscal 2024 was mainly explained by higher provision for expected credit losses on both the impaired and performing loans portfolio, lower net gains on other financial instruments, and higher operating and administrative expenses. This was partially offset by higher net interest income.

Operating and administrative expenses for the quarter ended June 30, 2023 were $139.2 million, higher than the $128.1 million in the corresponding period last year. The increase in operating and administrative expenses was mainly driven by higher salaries and staff benefits due to an increase in resources to support the growth of our portfolio.

Advisory Services results

	Three months ended June 30	
($ in millions)	**F2024**	F2023
Revenue	**11.4**	7.1
Delivery expenses[1]	**5.9**	3.8
Gross operating margin	**5.5**	3.3
Operating and administrative expenses	**14.5**	13.0
Net loss from Advisory Services	**(9.0)**	(9.7)

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

Three months ended June 30

A net loss of $9.0 million was recorded for the first quarter of fiscal 2024, compared to a $9.7 million net loss for the same quarter last year. The slight improvement in the first quarter of fiscal 2024 was due to an increase in revenue and higher cost recovery.

Advisory Services continued to extend its reach with the new services offered to support entrepreneurs in the digital adoption plan under CDAP for which BDC is one of the approved partners, as net contracts signed during the first quarter of fiscal 2024 was $12.4 million compared to $11.8 million for the same period last year.

Operating and administrative expenses of $14.5 million for the three-month period ended June 30, 2023, were higher than the $13.0 million recorded for the corresponding period of fiscal 2023, mainly explained by higher salaries and staff benefits and higher cost allocations from other divisions.

Growth & Transition Capital results

	Three months ended June 30	
($ in millions)	**F2024**	F2023
Net revenue on investments	**31.0**	38.3
Net change in unrealized appreciation (depreciation) of investments	**(1.6)**	(0.6)
Net foreign exchange gains (losses)	**(1.2)**	(2.1)
Income before operating and administrative expenses	**28.2**	35.6
Operating and administrative expenses	**10.9**	9.7
Net income from Growth & Transition Capital	**17.3**	25.9
Net income (loss) attributable to:		
BDC's shareholder	**17.3**	25.4
Non-controlling interests	**-**	0.5
Net income from Growth & Transition Capital	**17.3**	25.9

	Three months ended June 30	
As % of average portfolio	**F2024**	F2023
Net revenue on investments	**10.1**	13.6
Net change in unrealized appreciation (depreciation) of investments	**(0.5)**	(0.2)
Net foreign exchange gains (losses)	**(0.4)**	(0.7)
Income before operating and administrative expenses	**9.2**	12.7
Operating and administrative expenses	**3.6**	3.5
Net income from Growth & Transition Capital	**5.6**	9.2
Net income (loss) attributable to:		
BDC's shareholder	**5.6**	9.0
Non-controlling interests	**-**	0.2
Net income from Growth & Transition Capital	**5.6**	9.2

Three months ended June 30

Net income reached $17.3 million for the first quarter of fiscal 2024, compared to net income of $25.9 million for the same period last year, mainly due to lower net revenue on investments and higher operating and administrative expenses.

GTC recorded a net change in unrealized depreciation on investments of $1.6 million in the first quarter of fiscal 2024, compared to a net change in unrealized depreciation on investments of $0.6 million during the same period last year, as detailed below. The $1.6 million net change in unrealized depreciation on investments for the first quarter of fiscal 2024 was mainly explained by a net fair value depreciation of $6.2 million, offset by a reversal of net fair value depreciation due to realized income and write-offs of $4.6 million.

	Three months ended June 30	
($ in millions)	**F2024**	F2023
Net fair value appreciation (depreciation)	**(6.2)**	(1.1)
Reversal of net fair value depreciation (appreciation) due to realized income and write-offs	**4.6**	0.5
Net change in unrealized appreciation (depreciation) of investments	**(1.6)**	(0.6)

Operating and administrative expenses amounted to $10.9 million for the three-month period ended June 30, 2023, higher than the $9.7 million recorded last year. The increase was mainly a result of higher salaries and staff benefits and cost allocations from other divisions.

Venture Capital results

($ in millions)	Three months ended June 30 F2024	F2023
Net revenue on investments	**12.1**	27.4
Net change in unrealized appreciation (depreciation) of investments	**(3.5)**	(101.5)
Net foreign exchange gains (losses)	**(31.8)**	52.9
Income (loss) before operating and administrative expenses	**(23.2)**	(21.2)
Operating and administrative expenses	**15.1**	13.8
Net (loss) from Venture Capital	**(38.3)**	(35.0)
Net income (loss) attributable to:		
BDC's shareholder	**(36.6)**	(36.5)
Non-controlling interests	**(1.7)**	1.5
Net (loss) from Venture Capital	**(38.3)**	(35.0)

Three months ended June 30

During the first quarter of fiscal 2024, VC recorded a net loss of $38.3 million, compared to a net loss of $35.0 million for the same period last year. The unfavourable variance for the first quarter of fiscal 2024 was mainly explained by lower net revenue on investments and higher net foreign exchange losses, partially offset by lower unrealized depreciation on investments.

As detailed below, VC recorded a net change in unrealized depreciation of investments of $3.5 million for the first quarter of fiscal 2024 mainly driven by reversal of fair value appreciation on divested investments and write-offs, compared to a net change in unrealized depreciation of $101.5 million for the same period last year mainly due to net fair value depreciation.

($ in millions)	Three months ended June 30 F2024	F2023
Net fair value appreciation (depreciation)	**3.8**	(71.6)
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	**(7.3)**	(29.9)
Net change in unrealized appreciation (depreciation) of investments	**(3.5)**	(101.5)

In the first quarter of fiscal 2024, net foreign exchange losses on investments of $31.8 million were recorded due to foreign exchange fluctuations in U.S. dollar denominated investments compared to net foreign exchange gains on investments of $52.9 million recorded for the same period last year.

Operating and administrative expenses amounted to $15.1 million for the first quarter of fiscal 2024, $1.3 million higher than for the same period of fiscal 2023. The increase was mainly explained by higher salaries and staff benefits due to an increase in the number of employees to support the growth of our investment portfolio and higher cost allocations from other divisions.

Capital Incentive Programs results

	Three months ended June 30	
($ in millions)	**F2024**	F2023
Net revenue on investments	**13.6**	3.7
Net change in unrealized appreciation (depreciation) of investments	**(4.8)**	(60.7)
Net foreign exchange gains (losses)	**(1.1)**	1.7
Income (loss) before operating and administrative expenses	**7.7**	(55.3)
Operating and administrative expenses	**1.6**	1.7
Net income (loss) from Capital Incentive Programs	**6.1**	(57.0)

Three months ended June 30

During the first quarter of fiscal 2024, CIP recorded net income of $6.1 million, compared to a net loss of $57.0 million for the same period last year. The favourable variance for the first quarter of fiscal 2024 was mainly explained by lower net change in unrealized depreciation on investments compared to the equivalent period last year.

CIP recorded a net change in unrealized depreciation on investments of $4.8 million in the first quarter of fiscal 2024, compared to a net change in unrealized depreciation on investments of $60.7 million during the same period last year, as detailed below. The $4.8 million net change in unrealized depreciation on investments for the first quarter of fiscal 2024 was mainly explained by a net fair value appreciation of $1.1 million, offset by a reversal of net fair value appreciation due to realized income and write-offs of $5.9 million. The $60.7 million net change in unrealized depreciation on investments for the same period last year was driven by higher net fair value depreciation.

	Three months ended June 30	
($ in millions)	**F2024**	F2023
Net fair value appreciation (depreciation)	**1.1**	(60.1)
Reversal of net fair value depreciation (appreciation) due to realized income and write-offs	**(5.9)**	(0.6)
Net change in unrealized appreciation (depreciation) of investments	**(4.8)**	(60.7)

Credit Availability Program results

	Three months ended June 30	
($ in millions)	**F2024**	**F2023**
Net interest income	**60.5**	46.3
Fee and other income	**9.9**	11.8
Provision for expected credit losses	**(67.5)**	(17.5)
Net realized gains (losses) on investments	**0.1**	(0.9)
Net change in unrealized appreciation (depreciation) of investments	**(3.5)**	(0.3)
Net gains (losses) on other financial instruments	**(17.1)**	(0.2)
Net foreign exchange gains (losses)	**(0.1)**	0.2
Income (loss) before operating and administrative expenses	**(17.7)**	39.4
Operating and administrative expenses	**6.2**	6.5
Net income (loss) from Credit Availability Program	**(23.9)**	32.9

Three months ended June 30

During the first quarter of fiscal 2024, CAP recorded a net loss of $23.9 million, compared to net income of $32.9 million for the same period last year. Results for the first quarter of fiscal 2024 were unfavourably impacted by higher provision for expected credit losses of $67.5 million, compared to $17.5 million for the first quarter of fiscal 2023 and higher net losses on other financial instruments of $17.1 million compared to $0.2 million for the first quarter of fiscal 2023 driven by CDAP.

Operating and administrative expenses of $6.2 million for the three months ended June 30, 2023 were lower than the $6.5 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 June 30, 2023, total BDC assets amounted to $45.0 billion, an increase of $747.3 million from March 31, 2023, explained by the $584.2 million increase in our net loan portfolio, the $91.5 million increase in our asset-backed securities portfolio, and the $72.8 million increase in our investments portfolio.

At $36.5 billion, the loan portfolio represented BDC's largest asset (gross portfolio of $37.6 billion less a $1.1 billion allowance for expected credit losses). The gross loans portfolio grew by 1.8% over the quarter ended June 30, 2023, reflecting an increase in the level of activity in the Financing portfolio.

BDC's investment portfolio, which includes debt investments, direct equity investments and indirect equity investments in funds, stood at $5.8 billion, compared to $5.7 billion as at March 31, 2023. The increase of $72.8 million was mainly driven by net disbursements.

As at June 30, 2023, BDC recorded a net defined benefit asset of $262.6 million for the registered pension plan and a net defined benefit liability of $231.5 million for the other plans, for a total net defined benefit asset of $31.1 million. This represented a decrease of $5.1 million, compared to the total net defined benefit asset as at March 31, 2023, primarily as a result of remeasurement losses recorded in the first three months of fiscal 2024. 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 liquidities, which ensure funds are available to meet its cash outflows, totalled $865.6 million as at June 30, 2023, compared to $878.9 million as at March 31, 2023.

As at June 30, 2023, BDC funded its portfolios and liquidities with borrowings of $27.9 billion and total equity of $15.8 billion. Borrowings comprised $19.8 billion in short-term notes and $8.1 billion in long-term notes.

For the three-month period ended June 30, 2023, operating activities used $381.7 million in net cash flows, mainly to support the growth of the loan portfolio. Cash flows used by investing activities amounted to $211.8 million, reflecting net disbursements for investments and asset-backed-securities. Financing activities provided $580.1 million in cash flows, mainly as a result of a net change of $921.0 million in borrowings offset by a dividend payment of $337.0 million.

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 115.4% as at June 30, 2023, above its target capital ratio, compared to 118.6% as at March 31, 2023. The decrease in the internal capital ratio was explained by a decrease in available capital mainly from the dividend payment made during the first quarter of fiscal 2024. 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's Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports, and for such internal controls as management determines are necessary to enable the preparation of condensed quarterly Consolidated Financial Statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly Consolidated Financial Statements.

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

Isabelle Hudon
President and Chief Executive Officer

Stefano Lucarelli, CPA
Chief Financial Officer

Montreal, Canada
August 16, 2023

Consolidated Statement of Financial Position

(unaudited)

(in thousands of Canadian dollars)	Notes	**June 30, 2023**	March 31, 2023
ASSETS			
Cash and cash equivalents		**865,579**	878,919
Derivative assets		**12,987**	11,603
Asset-backed securities	6	**1,267,616**	1,176,100
Loans			
Loans, gross carrying amount	7	**37,613,331**	36,976,742
Less: allowance for expected credit losses	7	**(1,096,407)**	(1,044,039)
Loans, net of allowance for expected credit losses		**36,516,924**	35,932,703
Investments	8	**5,815,344**	5,742,512
Property and equipment		**65,651**	66,140
Intangible assets		**48,357**	47,646
Right-of-use-assets		**95,614**	98,780
Net defined benefit asset		**262,645**	260,466
Other assets		**81,537**	70,053
Total assets		**45,032,254**	44,284,922
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable, accrued and other liabilities		**348,015**	320,173
Derivative liabilities		**6**	117
Borrowings			
Short-term notes		**19,763,554**	19,767,097
Long-term notes		**8,096,830**	7,157,814
Total borrowings		**27,860,384**	26,924,911
Lease liabilities			
Short-term lease liabilities		**14,753**	14,705
Long-term lease liabilities		**98,163**	101,458
Total lease liabilities		**112,916**	116,163
Net defined benefit liability		**231,540**	224,313
Expected credit losses on loan commitments and guarantees		**564,353**	554,344
Total liabilities		**29,117,214**	28,140,021
Equity			
Share capital	9	**7,289,900**	7,289,900
Contributed surplus		**27,778**	27,778
Retained earnings		**8,631,408**	8,850,687
Accumulated other comprehensive income		**(38,464)**	(29,590)
Equity attributable to BDC's shareholder		**15,910,622**	16,138,775
Non-controlling interests		**4,418**	6,126
Total equity		**15,915,040**	16,144,901
Total liabilities and equity		**45,032,254**	44,284,922

Guarantees (Note 11)
Commitments (Notes 6, 7, and 8)

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

Consolidated Statement of Income

(unaudited)

(in thousands of Canadian dollars)	Notes	Three months ended June 30 2023	2022
Interest income		**731,206**	479,398
Interest expense	13	**246,000**	46,993
Net interest income		**485,206**	432,405
Net realized gains (losses) on investments		**17,712**	26,517
Revenue from Advisory Services		**11,443**	7,104
Fee and other income	13	**21,208**	28,703
Net revenue		**535,569**	494,729
Provision for expected credit losses		**(149,834)**	8,072
Net change in unrealized appreciation (depreciation) of investments		**(13,423)**	(163,216)
Net foreign exchange gains (losses)		**(37,727)**	57,473
Net gains (losses) on other financial instruments		**(17,130)**	12,741
Income before operating and administrative expenses		**317,455**	409,799
Salaries and benefits		**132,237**	119,263
Premises and equipment		**11,176**	10,681
Other expenses		**49,995**	46,678
Operating and administrative expenses		**193,408**	176,622
Net income		**124,047**	233,177
Net income (loss) attributable to:			
BDC's shareholder		**125,755**	231,219
Non-controlling interests		**(1,708)**	1,958
Net income		**124,047**	233,177

The accompanying notes are an integral part of these Consolidated Financial Statements. Note 10 provides additional information on segmented net income.

Consolidated Statement of Comprehensive Income

(unaudited)

	Three months ended June 30	
(in thousands of Canadian dollars)	**2023**	2022
Net income	**124,047**	233,177
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	**(8,874)**	(13,731)
Net change in unrealized gains (losses) on cash flow hedges	**-**	(138)
Total items that may be reclassified subsequently to net income	**(8,874)**	(13,869)
Items that will not be reclassified to net income		
Remeasurements of net defined benefit asset or liability	**(8,034)**	72,446
Other comprehensive income	**(16,908)**	58,577
Total comprehensive income	**107,139**	291,754
Total comprehensive income (loss) attributable to:		
BDC's shareholder	**108,847**	289,796
Non-controlling interests	**(1,708)**	1,958
Total comprehensive income	**107,139**	291,754

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

Consolidated Statement of Changes in Equity

For the three months ended June 30
(unaudited)

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) FVOCI assets [1]	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at March 31, 2023	**7,289,900**	**27,778**	**8,850,687**	**(29,590)**	**-**	**(29,590)**	**16,138,775**	**6,126**	**16,144,901**
Total comprehensive income (loss)									
Net income			**125,755**				**125,755**	**(1,708)**	**124,047**
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on fair value through other comprehensive income assets				**(8,874)**		**(8,874)**	**(8,874)**		**(8,874)**
Net change in unrealized gains (losses) on cash flow hedges					**-**	**-**	**-**		**-**
Remeasurements of net defined benefit asset or liability			**(8,034)**				**(8,034)**		**(8,034)**
Other comprehensive income (loss)	**-**	**-**	**(8,034)**	**(8,874)**	**-**	**(8,874)**	**(16,908)**	**-**	**(16,908)**
Total comprehensive income (loss)	**-**	**-**	**117,721**	**(8,874)**	**-**	**(8,874)**	**108,847**	**(1,708)**	**107,139**
Dividends on common shares			**(337,000)**				**(337,000)**		**(337,000)**
Transactions with owner, recorded directly in equity	**-**	**-**	**(337,000)**	**-**	**-**	**-**	**(337,000)**	**-**	**(337,000)**
Balance as at June 30, 2023	**7,289,900**	**27,778**	**8,631,408**	**(38,464)**	**-**	**(38,464)**	**15,910,622**	**4,418**	**15,915,040**

(in thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) FVOCI assets [1]	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at March 31, 2022	11,946,900	27,778	8,445,369	(17,392)	1,528	(15,864)	20,404,183	84,290	20,488,473
Total comprehensive income (loss)									
Net income (loss)			231,219				231,219	1,958	233,177
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on fair value through other comprehensive income assets				(13,731)		(13,731)	(13,731)		(13,731)
Net change in unrealized gains (losses) on cash flow hedges					(138)	(138)	(138)		(138)
Remeasurements of net defined benefit asset or liability			72,446				72,446		72,446
Other comprehensive income (loss)	-	-	72,446	(13,731)	(138)	(13,869)	58,577	-	58,577
Total comprehensive income (loss)	-	-	303,665	(13,731)	(138)	(13,869)	289,796	1,958	291,754
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

(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)

		Three months ended June 30	
(in thousands of Canadian dollars)	Notes	**2023**	2022
Operating activities			
Net income		**124,047**	233,177
Adjustments to determine net cash flows			
Interest income		**(731,206)**	(479,398)
Interest expense	13	**245,543**	46,554
Interest on lease liabilities		**457**	439
Net realized losses (gains) on investments		**(17,712)**	(26,517)
Provision for expected credit losses		**149,834**	(8,072)
Net change in unrealized depreciation (appreciation) of investments		**13,423**	163,216
Net unrealized foreign exchange losses (gains)		**57,026**	(55,759)
Defined benefits funding below (in excess of) amounts expensed		**(2,986)**	(6,162)
Depreciation of property and equipment, and amortization of intangible assets		**5,253**	5,045
Depreciation of right-of-use assets		**3,323**	3,403
Other		**(53,002)**	(101)
Interest expense paid		**(231,368)**	(40,276)
Interest income received		**715,054**	461,642
Changes in operating assets and liabilities			
Net change in loans		**(675,722)**	(503,907)
Net change in accounts payable,accrued and other liabilities		**27,842**	(37,102)
Net change in other assets		**(11,484)**	8,672
Net cash flows provided (used) by operating activities		**(381,678)**	(235,146)
Investing activities			
Disbursements for asset-backed securities		**(235,269)**	(141,133)
Repayments and proceeds on sale of asset-backed securities		**134,658**	112,531
Disbursements for investments	13	**(228,673)**	(295,550)
Repayments of investments	13	**98,150**	93,425
Proceeds on sale of investments	13	**24,808**	40,748
Acquisition of property and equipment		**(2,535)**	(1,285)
Acquisition of intangible assets		**(2,940)**	(3,850)
Net cash flows provided (used) by investing activities		**(211,801)**	(195,114)
Financing activities			
Net change in short-term notes		**(7,000)**	503,000
Issue of long-term notes		**1,234,000**	255,000
Repayment of long-term notes		**(306,000)**	(365,000)
Dividends paid on common shares		**(337,000)**	-
Payment of lease liabilities		**(3,861)**	(3,551)
Net cash flows provided (used) by financing activities		**580,139**	389,449
Net increase (decrease) in cash and cash equivalents		**(13,340)**	(40,811)
Cash and cash equivalents at beginning of period		**878,919**	906,386
Cash and cash equivalents at end of period		**865,579**	865,575

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 Treasury Board of Canada's Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports.

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, 2023. They should be read in conjunction with the audited Consolidated Financial Statements for the year ended March 31, 2023 and the accompanying notes as set out on pages 55 to 118 of BDC's 2023 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, 2024. 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 August 16, 2023.

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, 2023. 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 2023 Annual Report and the accompanying notes, as set out on pages 55 to 118 of our 2023 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 68 of our 2023 Annual Report.

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

(unaudited, in thousands of Canadian dollars)

5.

Fair value of financial instruments

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

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

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

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

				June 30, 2023
	Fair value measurements using			**Total**
	Level 1	**Level 2**	**Level 3**	**fair value**
Assets				
Derivative assets	**-**	**12,987**	**-**	**12,987**
Asset-backed securities	**-**	**1,267,616**	**-**	**1,267,616**
Investments	**111,526**	**-**	**5,703,818**	**5,815,344**
	111,526	**1,280,603**	**5,703,818**	**7,095,947**
Liabilities				
Derivative liabilities	**-**	**6**	**-**	**6**
	-	**6**	**-**	**6**

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

(unaudited, in thousands of Canadian dollars)

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

	Total
Fair value as at April 1, 2023	**5,637,352**
Net realized gains (losses) on investments	**9,521**
Net change in unrealized appreciation (depreciation) of investments	**(30,284)**
Net unrealized foreign exchange gains (losses) on investments	**(30,942)**
Disbursements for investments	**228,674**
Repayments of investments and other	**(110,503)**
Transfers from level 3 to level 1	**-**
Fair value as at June 30, 2023	**5,703,818**

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

6.

Asset-backed securities

The following table summarizes asset-backed securities ("ABS") by classification of financial instruments. No ABS were impaired as at June 30, 2023 or March 31, 2023. No allowances for expected credit losses were recorded for disbursed and undisbursed ABS at fair value through other comprehensive income as at June 30, 2023 or March 31, 2023.

	June 30, 2023	March 31, 2023
Fair value through other comprehensive income		
Principal amount	**1,285,947**	1,187,290
Cumulative fair value appreciation (depreciation)	**(38,464)**	(29,590)
Carrying value	**1,247,483**	1,157,700
Yield	**3.65%**	3.33%
Fair value through profit or loss		
Principal amount	**20,415**	18,602
Cumulative fair value appreciation (depreciation)	**(282)**	(202)
Carrying value	**20,133**	18,400
Yield	**8.82%**	9.86%
Asset-backed securities	**1,267,616**	1,176,100

Committed amounts of authorized asset-backed securities were $655,259 as at June 30, 2023 ($755,866 as at March 31, 2023), all in the Financing segment.

(unaudited, in thousands of Canadian dollars)

7.

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	261,025	5,561,144	30,826,943	36,649,112	(720,793)	35,928,319
Impaired	45,863	176,468	741,888	964,219	(375,614)	588,605
Loans as at June 30, 2023	**306,888**	**5,737,612**	**31,568,831**	**37,613,331**	**(1,096,407)**	**36,516,924**

	Within 1 year	1 to 5 years	Over 5 years	Total gross carrying amount	Allowance for expected credit losses	Total net carrying amount
Performing	455,469	5,479,860	30,111,047	36,046,376	(695,872)	35,350,504
Impaired	46,036	171,001	713,329	930,366	(348,167)	582,199
Loans as at March 31, 2023	501,505	5,650,861	30,824,376	36,976,742	(1,044,039)	35,932,703

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, 2023	**302,061**	**393,811**	**348,167**	**1,044,039**
Provision for expected credit losses				
Transfer to Stage 1[1]	**35,490**	**(35,134)**	**(356)**	**-**
Transfer to Stage 2[1]	**(28,213)**	**34,514**	**(6,301)**	**-**
Transfer to Stage 3[1]	**(616)**	**(17,217)**	**17,833**	**-**
Net remeasurement of allowance for expected credit losses[2]	**(33,988)**	**33,085**	**62,476**	**61,573**
Financial assets that have been fully repaid	**(9,414)**	**(9,611)**	**(9,631)**	**(28,656)**
New financial assets originated	**51,566**	**4,751**	**-**	**56,317**
Write-offs	**-**	**-**	**(42,713)**	**(42,713)**
Recoveries	**-**	**-**	**6,533**	**6,533**
Foreign exchange and other movements	**(84)**	**(210)**	**(392)**	**(686)**
Balance as at June 30, 2023	**316,802**	**403,989**	**375,616**	**1,096,407**

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

(1) Provides the cumulative movement from the previous month'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 gross carrying amounts, changes in credit risk of existing loans and changes in model inputs and assumptions, including forward-looking macroeconomic variables.

(unaudited, in thousands of Canadian dollars)

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 $4,291,403 as at June 30, 2023 ($1,515,568 at fixed rates; $2,772,885 at floating rates, and $2,950 at zero interest rate). The weighted average effective interest rate on interest-bearing loan commitments was 7.58% (7.42% as at March 31, 2023).

	June 30, 2023		March 31, 2023	
Geographic distribution	**Outstanding**	**Commitments**	Outstanding	Commitments
Newfoundland and Labrador	**793,667**	**47,903**	792,925	45,051
Prince Edward Island	**79,298**	**422**	73,787	7,559
Nova Scotia	**717,765**	**52,557**	708,206	45,833
New Brunswick	**509,956**	**74,549**	489,897	43,714
Quebec	**12,145,308**	**1,421,230**	11,915,354	1,262,642
Ontario	**10,375,556**	**1,098,679**	10,254,562	1,135,688
Manitoba	**1,003,623**	**121,744**	986,635	118,647
Saskatchewan	**1,028,641**	**95,379**	1,015,036	124,771
Alberta	**5,077,469**	**818,253**	4,968,162	828,130
British Columbia	**5,690,371**	**549,314**	5,577,631	515,441
Yukon	**105,812**	**5,909**	105,698	4,596
Northwest Territories and Nunavut	**85,865**	**5,464**	88,849	6,010
Total loans outstanding[(1)]	**37,613,331**	**4,291,403**	36,976,742	4,138,082

	June 30, 2023		March 31, 2023	
Industry sector	**Outstanding**	**Commitments**	Outstanding	Commitments
Manufacturing	**7,906,008**	**1,115,461**	7,819,547	1,084,419
Wholesale and retail trade	**7,688,773**	**807,517**	7,545,389	769,761
Service industries	**5,836,324**	**541,211**	5,758,306	459,562
Tourism	**3,560,321**	**187,819**	3,519,023	211,735
Commercial properties	**3,828,823**	**189,465**	3,751,219	211,380
Construction	**3,657,480**	**374,485**	3,544,654	396,832
Transportation and storage	**2,461,071**	**357,878**	2,462,347	282,318
Resources	**1,409,399**	**535,414**	1,346,911	530,441
Other	**1,265,132**	**182,153**	1,229,346	191,634
Total loans outstanding[(1)]	**37,613,331**	**4,291,403**	36,976,742	4,138,082

(1) Loan commitments included $4,287,485 in the Financing segment and $3,918 in the Credit Availability Program segment as at June 30, 2023 ($4,134,046, and $4,036, respectively, as at March 31, 2023).

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 Expected credit losses on loan commitments and guarantees

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, 2023	**47,172**	**9,928**	**-**	**57,100**
Provision for expected credit losses				
Transfer to Stage 1[(1)]	**671**	**(671)**	**-**	**-**
Transfer to Stage 2[(1)]	**(2,389)**	**2,389**	**-**	**-**
Net remeasurement of the allowance for expected credit losses[(2)]	**1,616**	**3,059**	**-**	**4,675**
Net increase (decrease) in commitments	**2,376**	**(2,479)**	**-**	**(103)**
Foreign exchange and other movements	**(2)**	**(18)**	**-**	**(20)**
Balance as at June 30, 2023	**49,444**	**12,208**	**-**	**61,652**

(unaudited, in thousands of Canadian dollars)

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

(1) Provides the cumulative movement from the previous month's allowance for expected credit losses on commitments 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.

8.

Investments

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

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

			June 30, 2023			March 31, 2023
Investment type	**Fair value**	**Cost**	**Commitments**	Fair value	Cost	Commitments
Direct investments						
Debt [(1)]	**1,238,514**	**1,321,319**	**156,136**	1,228,445	1,309,799	166,794
Equity [(2)]	**2,351,292**	**1,813,396**	**79,783**	2,319,740	1,758,907	67,753
	3,589,806	**3,134,715**	**235,919**	3,548,185	3,068,706	234,547
Indirect equity investments in funds [(3)]	**2,225,538**	**1,312,257**	**1,166,370**	2,194,327	1,259,942	1,181,926
Investments	**5,815,344**	**4,446,972**	**1,402,289**	5,742,512	4,328,648	1,416,473

(1) Debt investment commitments included $1,367 in the Financing segment, $140,989 the Growth & Transition Capital segment, $13,780 in the Venture Capital segment as at June 30, 2023 ($1,417, $148,097, $17,280, respectively, as at March 31, 2023).

(2) Direct equity commitments included $55,247 in the Venture Capital segment, $21,815 in the Capital Incentive Programs segment and $2,721 in the Credit Availability Program segment as at June 30, 2023 ($47,987, $16,864 and $2,902, respectively, as at March 31, 2023)

(3) Indirect equity in fund commitments included $564,905 in the Venture Capital segment and $601,465 in the Capital Incentive Programs segment as at June 30, 2023 ($590,369, $591,557 respectively, as at March 31, 2023). As at June 30, 2023, BDC had invested in 127 funds through its VC segment and 31 funds through its CIP segment (125 and 28 funds, respectively, as at March 31, 2023).

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

	Within 1 year	**1 to 5 years**	**Over 5 years**	**Total cost**	**Total fair value**
As at June 30, 2023	**123,423**	**934,818**	**263,078**	**1,321,319**	**1,238,514**
As at March 31, 2023	110,490	928,201	271,108	1,309,799	1,228,445

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

(unaudited, in thousands of Canadian dollars)

The following tables summarize debt investments outstanding and commitments, classified by geographic distribution and by industry sector. Debt investments commitments include $70,253 at fixed rates and $85,883 at floating rates ($72,057 and $94,737, respectively, as at March 31, 2023) and their weighted-average effective interest rate was 10.3% (9.9% on debt commitments as at March 31, 2023), excluding non-interest return.

			June 30, 2023			March 31, 2023
Geographic distribution	**Fair value**	**Cost**	**Commitments**	Fair value	Cost	Commitments
Newfoundland and Labrador	**15,510**	**17,267**	**4,000**	16,007	20,464	5,000
Prince Edward Island	**-**	**-**	**-**	-	-	-
Nova Scotia	**15,330**	**15,022**	**-**	15,163	16,949	500
New Brunswick	**16,301**	**19,297**	**1,000**	16,618	19,613	1,000
Quebec	**435,750**	**455,833**	**39,063**	432,522	449,702	41,517
Ontario	**478,069**	**511,899**	**86,508**	462,076	495,500	90,948
Manitoba	**12,694**	**12,612**	**4,765**	12,966	12,883	-
Saskatchewan	**29,756**	**31,643**	**3,300**	31,839	33,803	-
Alberta	**112,342**	**131,085**	**7,000**	115,371	133,561	9,050
British Columbia	**120,504**	**124,441**	**10,500**	123,182	124,677	18,779
Yukon	**2,258**	**2,220**	**-**	2,257	2,220	-
Northwest Territories and Nunavut	**-**	**-**	**-**	444	427	-
Debt investments	**1,238,514**	**1,321,319**	**156,136**	1,228,445	1,309,799	166,794

			June 30, 2023			March 31, 2023
Industry sector	**Fair value**	**Cost**	**Commitments**	Fair value	Cost	Commitments
Service industries	**380,204**	**392,313**	**67,847**	378,525	390,996	46,829
Manufacturing	**304,647**	**331,013**	**34,038**	297,457	328,054	34,780
Wholesale and retail trade	**242,326**	**245,968**	**18,301**	224,265	226,745	42,800
Information industries	**128,512**	**139,709**	**23,305**	136,900	145,124	27,940
Construction	**88,891**	**90,366**	**3,800**	88,239	89,308	5,015
Resources	**56,840**	**73,886**	**4,280**	64,944	80,486	7,630
Educational services	**15,166**	**16,206**	**4,565**	15,947	16,988	-
Transportation and storage	**12,477**	**20,991**	**-**	13,146	21,660	300
Tourism	**9,451**	**10,867**	**-**	8,016	9,432	1,500
Other	**-**	**-**	**-**	1,006	1,006	-
Debt investments	**1,238,514**	**1,321,319**	**156,136**	1,228,445	1,309,799	166,794

The largest concentration of debt investments in one individual or closely related group of clients as at June 30, 2023, was 2.5% of total debt investments at cost (2.6% as at March 31, 2023). The debt investments portfolio is composed primarily of debentures.

Concentrations by industry sector for direct equity investments are listed below. For direct equity investments, the largest single investment represented 4.0% of the total direct equity investments at cost (4.3% as at March 31, 2023).

			June 30, 2023			March 31, 2023
Industry sector	**Fair value**	**Cost**	**Commitments**	Fair value	Cost	Commitments
Information technology	**749,530**	**656,161**	**23,986**	721,175	625,981	12,809
Manufacturing	**390,625**	**239,943**	**12,602**	390,660	240,030	3,000
Service industries	**389,514**	**223,720**	**408**	403,824	219,879	6,197
Communications	**270,209**	**145,983**	**800**	258,368	141,047	812
Resources	**122,178**	**122,667**	**18,755**	123,831	119,132	8,514
Industrial	**93,545**	**83,022**	**2,977**	93,375	81,356	4,725
Electronics	**72,611**	**96,097**	**142**	80,407	101,648	142
Wholesale and retail trade	**63,635**	**47,398**	**-**	63,635	47,398	-
Medical and health	**62,961**	**52,495**	**9,192**	59,599	52,469	9,325
Transportation and storage	**51,633**	**33,584**	**521**	37,155	19,106	15,000
Biotechnology and pharmacology	**35,057**	**49,722**	**4,230**	39,108	49,921	4,230
Energy	**24,047**	**23,582**	**5,330**	22,563	21,919	2,159
Educational services	**6,000**	**6,160**	**840**	6,000	6,160	840
Other	**19,747**	**32,862**	**-**	20,040	32,861	-
Direct equity investments	**2,351,292**	**1,813,396**	**79,783**	2,319,740	1,758,907	67,753

9.

Share capital

An unlimited number of common shares, having a par value of $100 each, is authorized. As at June 30, 2023, there were 72,899,000 common shares outstanding (72,899,000 as at March 31, 2023).

On June 14, 2023, BDC's Board of Directors authorized the payment of $337.0 million in dividends. The payment was made on June 22, 2023.

On July 12, 2023, BDC issued 3,500,000 common shares for cash proceeds of $350.0 million, which represents a capital injection in support of the renewed Venture Capital Catalyst Initiative.

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.

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

During the three months ended June 30, 2023 and the year ended March 31, 2023, 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.

10.

Segmented information

BDC reports on six business lines: Financing, Advisory Services, Growth & Transition Capital, Venture Capital (VC), Capital Incentive Programs (CIP) and Credit Availability Program (CAP). Each business line offers different products and services and is managed separately based on BDC's management and internal reporting structure.

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

- Financing: provides secured, partially secured and unsecured loans with a focus on small and medium-sized enterprises across Canada. It also purchases investments in asset-backed securities through the Funding Platform for Independent Lenders (F-PIL). These securities are backed by vehicle and equipment loans and leases, as well as dealer floor plan loans.
- Advisory Services: provides advisory services, supports high-impact firms, and provides group programs and other services related to business activities, such as free online and educational content.
- Growth & Transition Capital: includes debt investments by way of flexible subordinated debt, with or without convertible features, and quasi-equity financing, which offer flexible repayment terms with limited collateral, to support the growth and transition projects of SMEs.
- Venture Capital: includes investments in Venture Capital (VC), Growth Equity (GE) and Intellectual Property (IP) and the new Climate Tech Fund II. Venture capital segment provides equity and debt investments to cover every stage of a technology-based company's development cycle, from seed funding to expansion. Equity investments in VC are focused on fast-growing companies having promising positions in their respective marketplaces and strong growth potential. BDC also makes indirect equity investments via venture capital investment funds. GE are equity investments to support the growth of high-potential companies across Canada with a focus on mid-size businesses. The IP Fund provides debt investments targeted to companies that are rich in intellectual property. The Climate Tech Fund II are equity investments in Canadian cleantech companies to contribute to Canada's transition to a sustainable, low-carbon economy.
- Capital Incentive Programs: includes direct and indirect equity investments in Venture Capital Action Plan (VCAP), Venture Capital Catalyst Initiative (VCCI), Cleantech Practice and Indigenous Growth Fund (IGF). VCAP is a federal government initiative to increase private sector venture capital financing for high-potential, innovative Canadian businesses. VCAP invests primarily in early-stage and mid-stage venture capital funds, and directly in companies across Canada. It supports the creation of large private sector-led funds of funds and also assists existing high-performing funds in partnership with institutional investors, corporate strategic investors and interested provinces. VCCI is also a government-sponsored initiative whereby capital is made available through BDC over three years to provide late-stage venture capital to support the growth of innovative start-ups. Through an envelope entrusted by the federal government, Cleantech Practice provides equity investments to promising clean technology firms to help build globally competitive and commercially sustainable Canadian cleantech firms. IGF is an investment fund that will provide access to capital to Indigenous entrepreneurs across all industries via business loans from a network of Aboriginal Financial Institutions throughout the country.
- Credit Availability Program: with the support of our sole shareholder, the Government of Canada, we launched a series of measures to help Canadian businesses during the COVID-19 crisis. These measures are combined under this segment to distinguish COVID-19 related measures from our core activities. The initiatives extend eligibility criteria to ensure we are meeting the urgent needs of as many viable businesses as possible. They include the Business Credit Availability Program, which is delivered in collaboration with private sector lenders, Highly Affected Sectors Credit Availability Program under which, financial institutions provide loans 100% guaranteed by BDC and measures delivered directly by BDC. As small businesses adapt to the lasting impacts of the COVID-19 pandemic, our shareholder launched the Canada Digital Adoption Program (CDAP), to help small and medium-sized enterprises adopt digital technologies and stay competitive by providing access to expertise and funding with interest free loans from BDC.

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

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

(unaudited, in thousands of Canadian dollars)

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 on the results of each reportable segment.

Three months ended June 30, 2023

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Capital Incentive Programs	Credit Availability Program
Interest income	731,206	657,147	-	34,476	841	1,450	37,292
Interest expense(1)	246,000	267,215	-	7,587	95	(5,700)	(23,197)
Net interest income	485,206	389,932	-	26,889	746	7,150	60,489
Net realized gains (losses) on investments	17,712	4	-	504	10,704	6,396	104
Revenue from Advisory Services	11,443	-	11,443	-	-	-	-
Fee and other income	21,208	7,063	-	3,614	619	49	9,863
Net revenue	535,569	396,999	11,443	31,007	12,069	13,595	70,456
Provision for expected credit losses	(149,834)	(82,334)	-	-	-	-	(67,500)
Net change in unrealized appreciation (depreciation) of investments	(13,423)	(81)	-	(1,591)	(3,477)	(4,763)	(3,511)
Net foreign exchange gains (losses)	(37,727)	(3,577)	-	(1,172)	(31,761)	(1,153)	(64)
Net gains (losses) on other financial instruments	(17,130)	-	-	-	-	-	(17,130)
Income (loss) before operating and administrative expenses	317,455	311,007	11,443	28,244	(23,169)	7,679	(17,749)
Salaries and benefits	132,237	94,750	11,617	9,040	11,882	1,099	3,849
Premises and equipment	11,176	8,689	828	475	719	176	289
Other expenses	49,995	35,770	7,958	1,386	2,517	336	2,028
Operating and administrative expenses	193,408	139,209	20,403	10,901	15,118	1,611	6,166
Net income (loss)	124,047	171,798	(8,960)	17,343	(38,287)	6,068	(23,915)
Net income (loss) attributable to:							
BDC's shareholder	125,755	171,798	(8,960)	17,356	(36,592)	6,068	(23,915)
Non-controlling interests	(1,708)	-	-	(13)	(1,695)	-	-
Net income (loss)	124,047	171,798	(8,960)	17,343	(38,287)	6,068	(23,915)
Business segment portfolio as at June 30, 2023							
Asset-backed securities	1,267,616	1,267,616	-	-	-	-	-
Loans, net of allowance for expected credit losses	36,516,924	34,810,372	-	-	-	-	1,706,552
Debt investments	1,238,514	10,051	-	1,182,634	37,793	-	8,036
Direct equity investments	2,351,292	-	-	-	1,743,935	477,973	129,384
Indirect equity investments in Funds	2,225,538	-	-	-	1,164,907	1,060,631	-
Investments	5,815,344	10,051	-	1,182,634	2,946,635	1,538,604	137,420
Total portfolio	43,599,884	36,088,039	-	1,182,634	2,946,635	1,538,604	1,843,972

Three months ended June 30, 2022

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Capital Incentive Programs	Credit Availability Program
Interest income	479,398	415,675	-	29,586	461	1,984	31,692
Interest expenses(2)	46,993	61,172	-	1,948	22	(1,519)	(14,630)
Net interest income	432,405	354,503	-	27,638	439	3,503	46,322
Net realized gains (losses) on investments	26,517	(499)	-	1,674	26,178	57	(893)
Revenue from Advisory Services	7,104	-	7,104	-	-	-	-
Fee and other income(2)	28,703	7,018	-	9,004	819	105	11,757
Net revenue	494,729	361,022	7,104	38,316	27,436	3,665	57,186
Provision for expected credit losses	8,072	25,592	-	-	-	-	(17,520)
Net change in unrealized appreciation (depreciation) of investments	(163,216)	(144)	-	(601)	(101,536)	(60,684)	(251)
Net foreign exchange gains (losses)	57,473	4,724	-	(2,090)	52,915	1,695	229
Net gains (losses) on other financial instruments	12,741	12,950	-	-	-	-	(209)
Income (loss) before operating and administrative expenses	409,799	404,144	7,104	35,625	(21,185)	(55,324)	39,435
Salaries and benefits	119,263	83,934	11,036	8,197	10,223	1,201	4,672
Premises and equipment	10,681	8,158	731	412	874	94	412
Other expenses	46,678	35,958	5,018	1,130	2,763	357	1,452
Operating and administrative expenses	176,622	128,050	16,785	9,739	13,860	1,652	6,536
Net income (loss)	233,177	276,094	(9,681)	25,886	(35,045)	(56,976)	32,899
Net income (loss) attributable to:							
BDC's shareholder	231,219	276,094	(9,681)	25,419	(36,536)	(56,976)	32,899
Non-controlling interests	1,958	-	-	467	1,491	-	-
Net income (loss)	233,177	276,094	(9,681)	25,886	(35,045)	(56,976)	32,899
Business segment portfolio as at June 30, 2022							
Asset-backed securities	1,003,238	1,003,238	-	-	-	-	-
Loans, net of allowance for expected credit losses	33,849,312	31,256,767	-	-	-	-	2,592,545
Debt investments(2)	1,154,678	10,979	-	1,107,761	23,873	-	12,065
Direct equity investments(2)	2,623,833	-	-	27,855	2,077,606	367,406	150,966
Indirect equity investments in funds(2)	2,170,109	-	-	-	1,165,150	1,004,959	-
Investments(2)	5,948,620	10,979	-	1,135,616	3,266,629	1,372,365	163,031
Total portfolio	40,801,170	32,270,984	-	1,135,616	3,266,629	1,372,365	2,755,576

(1) Segment interest expense includes intersegment interest charged to Financing of $45.1 million from the Capital Incentive Programs (CIP) and the Credit Availability Program (CAP), which have a corresponding intersegment interest credit of $5.7 million and $39.4 million, respectively ($20.8 million, with a corresponding intersegment interest credit of $1.5 million and $19.2 million, respectively, as at June 30, 2022). This intersegment transaction reflects the interest expense (credit) on CIP's and CAP's cash balances transferred to Financing for treasury management purposes.

(2) Reclassified—see Note 13

(unaudited, in thousands of Canadian dollars)

11.

Guarantees

BDC issues “letters of credit, loan guarantees and portfolio guarantees” (guarantees) to support businesses. Those guarantees represent BDC’s obligation to make payments to third parties if clients are unable to meet their contractual commitments. Collateral requirements for guarantees are consistent with BDC collateral requirements for loans. The maximum contractual obligation and actual exposure under the guarantees amounted to $3,170.6 million as at June 30, 2023 ($3,319.9 million as at March 31, 2023) and the existing terms expire within an average of 94 months (within an average of 96 months as at March 31, 2023).

As at June 30, 2023, an amount of $35.2 million of claims payable under these guarantees was recognized in BDC’s Consolidated Statement of Financial Position ($20.1 million as at March 31, 2023).

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

				June 30, 2023
Allowance for expected credit losses on loan guarantees	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2023	**46,030**	**248,601**	**202,614**	**497,245**
Provision for expected credit losses				
Transfer to Stage 1[1]	**17,802**	**(17,149)**	**(653)**	**-**
Transfer to Stage 2[1]	**(6,902)**	**11,223**	**(4,321)**	**-**
Transfer to Stage 3[1]	**(72)**	**(28,058)**	**28,130**	**-**
Net remeasurement of the allowance for expected credit losses[2]	**(14,751)**	**21,779**	**2,478**	**9,506**
Net increase (decrease) in guarantees	**(786)**	**(4,070)**	**806**	**(4,050)**
Balance as at June 30, 2023	**41,321**	**232,326**	**229,054**	**502,701**

				March 31, 2023
Allowance for expected credit losses on loan guarantees	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2022	84,143	151,067	24,218	259,428
Provision for expected credit losses				
Transfer to Stage 1[1]	129,019	(123,249)	(5,770)	-
Transfer to Stage 2[1]	(62,269)	82,945	(20,676)	-
Transfer to Stage 3[1]	(774)	(84,081)	84,855	-
Net remeasurement of the allowance for expected credit losses[2]	(107,420)	226,697	126,302	245,579
Net increase (decrease) in guarantees	3,331	(4,778)	(6,315)	(7,762)
Balance as at March 31, 2023	46,030	248,601	202,614	497,245

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

(unaudited, in thousands of Canadian dollars)

12.

Related party transactions

As at June 30, 2023, BDC had $19,763.6 million outstanding in short-term notes and $8,096.8 million in long-term notes with His Majesty the King in Right of Canada acting through the Minister of Finance ($19,767.1 million in short-term notes and $7,157.8 million in long-term notes as at March 31, 2023).

BDC recorded $256.4 million in interest expense, related to the borrowings from the Minister of Finance, for the quarter ended June 30, 2023. Last year's comparative figures for the same period were $49.6 million.

In addition, no borrowings with the Minister of Finance were repurchased in the first three months of fiscal 2024. ($321.0 million was repurchased during the same period last year, resulting in a gain of $12.8 million).

On June 30, 2023, BDC issued $225.0 million of long-term debt with a settlement date of July 4, 2023.

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.

13.

Comparative information

Reclassification of Subordinate financing investments and Venture capital investments to Investments

The tables below summarize the impact on the Consolidated Statement of Cash Flows and on Note 10—*Segmented information* of the reclassification of Subordinate financing investments and Venture capital investments in the new line item "Investments" for the quarter ended June 30, 2022.

Consolidated Statement of Cash Flows	Quarter ended June 30, 2022	Reclassification to Disbursements for investments	Reclassification to Repayments of investments	Reclassification to Proceeds on sale of investments	**Quarter ended June 30, 2022 reclassified**
Disbursements for subordinate financing investments	(206,881)	206,881	-	-	-
Repayments of subordinate financing investments	93,425	-	(93,425)	-	-
Disbursements for venture capital investments	(88,669)	88,669	-		-
Proceeds on sale of venture capital investments	40,748	-	-	(40,748)	-
Disbursements for investments		**(295,550)**	**-**	**-**	**(295,550)**
Repayments of investments		**-**	**93,425**		**93,425**
Proceeds on sale of investments		**-**	**-**	**40,748**	**40,748**

Note 10 - ***Segmented Information***

		Financing		Growth & Transition Capital		Venture Capital		Capital Incentive Programs		Credit Availability Program	
Investment categories as per the three months ended June 30, 2022, reclassified	Total Investments	Subordinate financing investments	Venture capital investments	Subordinate financing investments	Venture capital investments	Subordinate financing investments	Venture capital investments	Subordinate financing investments	Venture capital investments	Subordinate financing investments	Venture capital investments
Debt investments	1,154,678	10,979	-	1,107,761	-	23,873	-	-	-	12,065	-
Direct equity investments	2,623,833	-	-	27,855	-	274,161	1,803,445	367,406	-	-	150,966
Indirect equity investments	2,170,109	-	-	-	-	-	1,165,150	-	1,004,959	-	-
Total	**5,948,620**	**10,979**	**-**	**1,135,616**	**-**	**298,034**	**2,968,595**	**367,406**	**1,004,959**	**12,065**	**150,966**
Reconciliation with the first quarter of fiscal 2023 Quarterly Financial Report											
Subordinate financing investments	1,824,100	10,979	-	1,135,616	-	298,034	-	367,406	-	12,065	-
Venture capital investments	4,124,520	-	-	-	-	-	2,968,595	-	1,004,959	-	150,966
Total	**5,948,620**	**10,979**	**-**	**1,135,616**	**-**	**298,034**	**2,968,595**	**367,406**	**1,004,959**	**12,065**	**150,966**

(unaudited, in thousands of Canadian dollars)

Reclassification of intersegment interest from Fee and other income to Interest expense

The tables below show the impact of the reclassification of intersegment interest from Fee and other income to Interest expense on the Consolidated Statement of Income, the Consolidated Statement of Cash Flows and Note 10—*Segmented information*.

Consolidated Statement of Income	Quarter ended June 30, 2022	Intersegment interest reclassified	**Quarter ended June 30, 2022 reclassified**
Interest expense	67,758	(20,765)	**46,993**
Fee and other income	49,468	(20,765)	**28,703**
Consolidated Statement of Cash Flows			
Interest expense	67,319	(20,765)	**46,554**
Interest expense paid	(61,041)	(20,765)	**(40,276)**
Note 10 - *Segmented Information*			
Interest expense CIP	-	(1,519)	**(1,519)**
Interest expense CAP	4,616	(19,246)	**(14,630)**
Total Interest expense	67,758	(20,765)	**46,993**
Fee and other income CIP	1,624	(1,519)	**105**
Fee and other income CAP	31,003	(19,246)	**11,757**
Total Fee and other Income	49,468	(20,765)	**28,703**

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