2020
annual report

bdc

The only bank devoted exclusively to entrepreneurs.

Table of Contents

Message from the Chairperson of the Board of Directors

"During the year, BDC made good progress on many important strategic initiatives aimed at helping Canadian entrepreneurs make their companies more competitive, resilient and innovative."

One of BDC's most important roles is to support entrepreneurs during difficult times and that mission has never been more critical than during the COVID-19 pandemic. BDC stepped up to deliver extraordinary relief to entrepreneurs in a time of great need.

BDC fulfills its purpose of helping Canadian small and medium-sized businesses in a collaborative and complementary fashion. In the initial weeks of the COVID-19 crisis, this meant participating in a whole-of-government response, including working closely with Export Development Canada (EDC), and cooperating with private sector financial institutions, notably on the design and implementation of the Business Credit Availability Program (BCAP) with the goal of swiftly and efficiently assisting as many business owners as possible.

A keen focus on helping entrepreneurs

During the year, BDC made good progress on many important strategic initiatives aimed at helping Canadian entrepreneurs make their companies more competitive, resilient and innovative.

Among the projects of special importance was BDC's ongoing **digital transformation**. The pace of technological change is accelerating, and entrepreneurs increasingly expect a high level of service from BDC as they do from their other providers. The board is keenly aware that BDC must deploy technologies to not only deliver products online and via mobile devices, but also to anticipate the needs of entrepreneurs in order to serve them better now and in the future. BDC is making good progress.

The board continued to focus on ensuring that BDC remains vigilant in the management of the various risks that confront the organization. For example, we know that **climate change** is not only impacting our natural world but also creating real risks for the BDC and its clients. This year, we deepened our understanding of how climate change may affect Canadian SMEs. The most powerful contribution BDC can make toward achieving a climate resilient nation is by supporting entrepreneurs who are innovating in the transition to a low carbon economy. This starts with businesses that are discovering and commercializing ways to combat climate change and pollution that BDC finances through its Cleantech Practice and other initiatives.

We will continue our consultations with management on climate change risk and overseeing implementation of BDC's strategy to address the critical issue of climate change.

We also oversaw steps to maintain the financial stability of the Bank, notably by considering and approving **a new Capital Management Framework** designed to ensure that even under stressed economic conditions, BDC has a sufficient level of capital to meet its mandate objectives. This framework served BDC well during the COVID-19 crisis.

Indeed, the loss incurred by BDC in fiscal 2020 was consistent with our expectations derived from our risk management framework and stress testing scenario planning, and was also consistent with how we would expect a development bank to be impacted in a severe economic downturn.

New board members

We welcomed three new board members during fiscal 2020 who brought a diverse range of perspectives to our discussions.

> Cathy Bennett is the majority joint venture partner of Rosewood Spa in St. John's and the founder of The Business Suit(es).

> Abdullah Snobar is the Executive Director of the DMZ tech accelerator at Ryerson University.

> Suzanne Trottier is Director of Capacity Development and Intervention at the First Nations Financial Management Board.

Claude Mc Master and Nancy Laird left the board after each serving four years. I thank them for their devoted service.

Together, with our new members, the Board of Directors continues to oversee the implementation of BDC's priorities and its unique mission of helping Canadian entrepreneurs succeed.

From crisis to recovery

I want to thank Michael Denham and the senior management team and all BDC employees. They constantly demonstrate their dedication, resilience and care for entrepreneurs.

As we move forward, entrepreneurs will need to adapt to the challenges of a post-crisis world and BDC is uniquely positioned to help them with this. As for BDC, we have already drawn, and will continue to draw, valuable learnings from this unprecedented experience going forward. The crisis has notably created opportunities to pursue the digital transformation with even more energy and commitment so that the Bank is able to make it easier and faster for business owners to access the financing and resources they need now and in the future.

BDC is a strong, resourceful organization. It will be a key player in seeing Canadian entrepreneurs rebuild for the benefit of our communities and the whole country.

Sincerely,

Mike Pedersen
Chairperson of the Board

Message from the President and CEO

"I wish to extend my sincere thanks to our employees for their extraordinary efforts and rapid mobilization."

It's remarkable how fast things changed in the final weeks of March 2020, just before the end of our financial year. Before the COVID-19 crisis, entrepreneurs were operating in a healthy economy with access to a financing market with ample liquidity. Then, the lockdowns came and suddenly hundreds of thousands of Canadian businesses faced unprecedented disruption and hardship.

As Canada's Business Development Bank, it is our role to be there to **support entrepreneurs in good times and in bad**. That's why BDC was one of the first places entrepreneurs turned to for help. In March 2020, we received **more loan requests through our online platform in less than three weeks than we typically do in a full year**.

We had to adjust and **simplify** our processes to respond to as many entrepreneurs as quickly as possible, including our clients. We also geared up to deploy, in cooperation with Export Development Canada (EDC) and private sector financial institutions, the **Business Credit Availability Program** (BCAP), to provide what could be up to $40 billion in additional lending to support the cash flow needs of small and medium-sized companies.

As entrepreneurs were suddenly confronted with severe cash flow difficulties and an urgent need for credit at the end of March, this created massive demand for BDC's financing, especially through its online platform. More than 10% of BDC's employees were redeployed to areas where demand was high to be able to respond as fast as possible to this unprecedented volume.

I wish to extend my sincere **thanks to our employees for their extraordinary efforts and rapid mobilization** during this difficult period, while all working from home. It was an "all-hands on deck" moment and our employees are still giving their all to be there for entrepreneurs.

Critical digital capabilities

The major investments we have been making over the past few years in our **digital capabilities** were a key factor in helping us respond to the crisis. It allowed us to close our offices and transition 100% of our **employees to working remotely**.

Even before the crisis, our digital transformation had proven its value to entrepreneurs. We saw **strong growth in our online financing** and in the **use of mobile applications** throughout the year. Through process automation and by using data analytics and artificial intelligence, we are making it easier and faster for entrepreneurs to access our products and services.

> Acceptances for **online financing** loans and the Virtual Business Centre reached $477 million, an increase of almost 12% from last year.

> We authorized $328M in loans through our flagship **BDC Express Loan** mobile app, which allows us to authorize up to $750,000 in minutes.

> We had another record year of people coming to BDC for tools, advice or financing, with close to 9 million visits to BDC.ca.

Supporting investments in innovation

Canada needs more companies with the scale and ability to harness technology to compete effectively on the national and international stages. That's why BDC focuses on being a strategic partner for the country's most innovative, high-growth businesses.

> Fiscal 2020 was a record year for BDC's **Venture Capital division** in terms of proceeds received from divestiture investments, with $431 million compared to 125 million in fiscal 2019. This is in line with our strategy of supporting the best performing Canadian companies with the technology and talent to assume leadership at the global level.

> Among the key initiatives undertaken this year by BDC Capital, our investment arm, was the launch of the $250-million **Industrial Innovation Venture Fund**. This fund invests in companies and entrepreneurs who are accelerating the transformation of core Canadian industries that form the backbone of the national economy, including agriculture and food technologies, resource extraction technologies and advanced manufacturing.

> Our **Growth & Transition Capital team** remains on track to achieve the target set in 2017 of investing $1.8 billion over five years to increase **support for asset-light, high-growth businesses**. This financing includes $250 million for growth equity and $900 million for business transitions as more baby-boom generation entrepreneurs exit their businesses.

> To support the growth of tech firms, BDC has established a **dedicated pan-Canadian technology team**. This team works closely with BDC Capital, Advisory Services and Export Development Canada (EDC) to ensure a full spectrum of support for tech businesses by connecting them to the best funding solutions and advice.

> In fiscal 2020, our total commitments through our **Cleantech Practice** reached $244 million in innovative cleantech companies. We are well on track in delivering on our $600 million commitment to help build globally competitive Canadian cleantech firms and a long-term, commercially sustainable cleantech industry that can attract significant private capital investment.

> Across all BDC lines of business—we support more than 3,500 tech companies with close to $3B in loans and investments, including in 900 VC-backed innovative firms.

A focus on non-financial support

We are keenly aware that it takes more than dollars to build a successful business. That's why we offer entrepreneurs high quality advice, training and free content to help them overcome business challenges.

> Canadian business owners continue to see value in our advice. I am pleased to report that **BDC Advisory Services** had a 14% increase in net contracts signed compared to last year.

> We continued offering our **Growth Driver Program**, which helps a select group of high-growth firms achieve sustainable growth by offering strategic advice, tailored coaching and leadership development skills. We ended last fiscal with 140 companies enrolled in the program with combined revenues of close to $5 billion.

Another strong year supporting Canadian businesses

Last year, we provided financing, investments and advice to more than 62,000 Canadian business owners. Our clients accepted $7.4 billion in loans, an increase of 2.5% over the previous year. Overall, we had $36.5 billion in capital committed to small and medium-sized businesses.

Throughout the year, we continued to focus on filling the gaps in the financing market and ensuring that all entrepreneurs have the same opportunities to start and grow businesses.

> We have authorized nearly $1.1 billion in **financing for majority women-owned companies** and are well ahead of the ambitious target we set in 2018. We have now doubled the number of women entrepreneurs we finance to close to 7,000 since 2018.

> Our $200-million **Women in Technology Venture Fund** (WIT), which is one of the largest of its kind in the world, also made excellent progress. During the year, WIT invested $25 million in 15 companies through new and follow-on investments and another $8.5 million in three fund managers with a female general partner and a focus on supporting women-led firms.

> The **Indigenous Banking Unit** now serves more than 1,100 Indigenous entrepreneurs across Canada. We are working with the National Aboriginal Capital Corporations Association (NACCA) to design and structure the **Indigenous Growth Fund** to increase access to capital for Indigenous business owners.

> Under a renewal of our **co-lending agreement with Futurpreneur**—a national non-profit organization that offers mentoring, financing and resources to young entrepreneurs—we substantially increased the limit for Futurpreneur loans to a maximum of $60,000 from $45,000.

The COVID-19 pandemic will be remembered as causing huge disruption on many fronts. As Canada's GDP will contract, BDC booked significant provisions for loans – both performing and non-performing, consistent with International Financial Reporting Standards (IFRS). This, combined with higher net fair value depreciation on investments in GTC and VC, affected our financial performance.

As a result, we incurred **a consolidated net loss of $218 million for fiscal 2020**. If we remove the impact of COVID-19 in the month of March, net income would have exceeded the objective we had forecasted in our Corporate Plan.

Looking to the future with confidence

Thanks to our employees, BDC remains a truly great place to work. We were once again recognized among **Canada's Top 100 Employers** and also among **Canada's Best Diversity Employers**. In the months ahead, we will continue to do everything we can to keep our employees healthy and make sure they have the tools to help our clients position themselves for the recovery.

There is no doubt entrepreneurs are experiencing a business contraction of historic proportions. The COVID-19 pandemic has caused extreme distress and has cast a cloud over the economic outlook. We know there has never been a more difficult time to run a business. However, we also know the **recovery will come**.

BDC marked its **75th anniversary last year by celebrating the resilience, hard work and ambition of Canada's entrepreneurs**.

Today, we are confident those qualities will help them emerge from this crisis stronger.

BDC will be there for them—ready and able to provide the financing and advice Canadian entrepreneurs need to rebuild and grow their businesses.

Sincerely,

Michael Denham
President and CEO

Management's Discussion and Analysis

1 Economic Environment

COVID-19 affects the tail-end of an already challenging year

In late January several cities in China's Hubei province were placed under quarantine due to COVID-19 outbreaks. This marked the beginning of large-scale lockdowns imposed by public health authorities around the world to slow the spread of the new disease. As people stayed home, economic activity plummeted in one country after another.

In China, GDP fell by 34% in the last quarter of fiscal 2020.[1] When the virus spread to Europe, the impact on the economy was similar. GDP contracted by 14% in the eurozone between January and March, including 18% in Italy and 19% in Spain—the two hardest-hit countries in Europe.

In Canada, the impact of COVID-19 started with businesses experiencing supply chain disruptions, travel restrictions and reduced tourism from Asia. As evidence of community transmission of the virus emerged in Canada, public health authorities announced large-scale lockdowns. Economic activity was interrupted as Canadians stayed home and businesses shut down or transitioned to teleworking. During the last quarter of the fiscal year, Canada's GDP fell by almost 10%.

The global economy had already slowed in 2019
Before the emergence of the Coronavirus, global economic growth had already slowed to 2.9% in 2019—the weakest pace since the 2009 recession. The slowdown hit advanced and developing nations alike with developed economies seeing average growth of 1.7%, down from 2.2% in 2018, and emerging market growth slowing to 3.7% from 4.5%.

Trade tensions played a significant role in the slowdown as global trade volumes decreased by 0.4%, the first decline in a decade. In an ideal world, a Phase 1 trade deal between the U.S. and China, would have set the table for a more promising 2020. However, the COVID-19 pandemic and lockdowns across much of the world made a sharp decline in global trade unavoidable.

COVID-19 ends a decade of growth in the U.S.
The U.S. economy grew by 2.3% in 2019. Growth was broad-based with 2.1 million net new jobs created, resulting in the unemployment rate hitting an intergenerational low of 3.5%. Personal consumption expenditures increased by 2.6% while residential construction reached a 13-year high.

The COVID-19 crisis dramatically reversed these gains. The U.S. economy contracted by about 5% in the last quarter of the fiscal year and unemployment stood at 14.7% in April, the highest level recorded since the Second World War. Surveys in March and April showed significant losses in business confidence and consumer discretionary spending. With many predicting a long and difficult recession, the U.S. government launched a massive economic relief program and the Federal Reserve cut its funds rate to near zero to help drive a rebound in economic activity once lockdown measures eased.

(1) GDP growth rates in this section are provided on an annualized, quarter-over-quarter basis.

A two-pronged contraction in Canada

In Canada, GDP grew by 1.6% in 2019, slightly below potential. A closer look shows the year was mixed. There was positive news on the jobs front with Canada's labour market creating 300,000 net new jobs. The housing market was also up. Housing starts remained above 200,000 for a third year in a row, and residential home sales increased by 6.5%. Business investment also picked up in the second half of the year and ended 2019 up 2.2% compared to late 2018. However, rising household debt and low oil and gas prices were causes for concern heading into 2020.

Canada's performance in 2019 had little bearing on 2020 as the country faced a two-pronged economic contraction caused by the COVID-19 pandemic and an unprecedented fall in oil prices. Canada's GDP contracted by 9% in March alone and by about 10% in the last quarter of the fiscal year. Unemployment rose to 8% in March and to 13% in April. Adding to the impact of the pandemic was a Saudi-Russian oil price war that started in early March. By the end of that month, a barrel of Western Canadian Select was worth about 15% of its value in January.

Economic activity should return to pre-COVID levels anywhere between the second quarter of calendar 2021 and third quarter of 2023. However, the recovery will be uneven with some sectors like food processing, information and communications technology and construction recovering relatively quickly. Sectors that rely on discretionary consumer spending such as tourism, aerospace and the automotive industry are more likely to struggle. That said, fiscal 2021 will likely be a difficult year for most Canadian entrepreneurs.

2 Expected results and performance indicators

BDC's performance measures support its aspiration to make Canadian entrepreneurs the most competitive in the world. They are aligned with shareholder priorities and BDC's client impact strategic objectives:

- → (red) Increasing access to capital and advice for entrepreneurs
- → (teal) Accelerating growth, innovation and productivity for targeted entrepreneurs
- → (orange) Improving the Canadian entrepreneurial ecosystem

Short term—1 year

Objective	Performance indicator	Target Fiscal 2020	Result Fiscal 2020	Percentage achieved	Comment
Provide financing to small businesses	# of acceptances(1)	14,000	15,201	109%	BDC strives to help SMEs meet their financing needs. BDC exceeded the target for the number of acceptances due to high demand for smaller loans throughout the year. This was especially true in the last month when the Bank launched initiatives to help entrepreneurs cope with the COVID-19 pandemic.
Provide asset-light financing	$ of acceptances, GTC and BDC Financing unsecured loans ($ in millions)	1,400	1,662	119%	BDC supports businesses that require financing even if they have little or no collateral. The target was surpassed due to high demand for technology financing, unsecured loans in Financing (including increased COVID-related demand for online loans in the last few weeks of the year) and larger average deal size in GTC.
Support Indigenous entrepreneurs	# of clients identified as Indigenous	750	794	106%	BDC supports a growing number of Indigenous entrepreneurs through its dedicated Indigenous Banking Unit. Offering a full range of products and services, including the specialized Indigenous Entrepreneur Loan, BDC has increased its reach in this market. In fiscal 2020, BDC began working on the development of the Indigenous Growth Fund, in collaboration with the National Aboriginal Capital Corporations Association, to further increase access to capital for Indigenous entrepreneurs.
Make it easy for clients to do business with BDC	% of very satisfied clients(2)	66	67	102%	This year, BDC continued to strengthen its understanding of entrepreneurs and their needs and increased its efforts to offer more personalized service. Our positive satisfaction score demonstrates our continued commitment to delivering great client experiences aligned with our brand promise.
Work in partnership to extend reach and provide support to entrepreneurs	# of transactions done in partnership(3)	1,700	1,672	98%	BDC works with partners to maximize entrepreneurs' success. The result is slightly below target, reflecting a modest decrease in the number of referrals from Community Futures Development Corporations. This is due to a greater number of entrepreneurs requesting loans directly through BDC's online channel. Transactions done in partnership with Futurpreneur also declined. However, in both cases, as well as for the overall result, the dollar value increased compared to the prior year.
	# of indirect clients(4)	11,000	11,816	107%	BDC reaches more entrepreneurs by working with alternative lenders and venture capital funds. The target for indirect clients was surpassed, mainly due to greater disbursements in indirect financing, particularly for smaller originator clients.
Provide advisory services to accelerate growth, innovation and productivity	# of mandates for BDC Advisory Services(5)	1,775	1,616	91%	BDC Advisory Services provides entrepreneurs with much-needed advice, knowledge and skill-building opportunities, delivered by a network of external consultants. The number of mandates is slightly below the objective mainly because the team focused on offering larger solutions to increase the depth of services offered and impact.

Unless otherwise noted, all data are sourced from BDC's portfolio.

(1) BDC Financing and Growth & Transition Capital loans with a commitment size of less than $750,000.

(2) "Very satisfied" clients gave a score of 9 or 10 out of 10 for their overall satisfaction with BDC services. Source: BDC Client Voice Survey (excludes Venture Capital).

(3) Including Financing transactions of more than $100,000, and Advisory Services transactions, done in collaboration with chartered banks, other lenders, government agencies and Crown corporations, and Community Futures and other economic development agencies, and under specific agreements (including Futurpreneur and Women's Enterprise Organizations of Canada, despite these being below $100,000).

(4) Excluding clients served by ATB Financial. The number of indirect clients is difficult to forecast given that a new partnership with an independent financing company would lead to a significant increase in the number of indirect clients, just as the end of a partnership would lead to a significant decrease.

(5) Includes mandates for high-impact firms, international expansion and consulting.

→ Increasing access to capital and advice for entrepreneurs	→ Accelerating growth, innovation and productivity for targeted entrepreneurs	→ Improving the Canadian entrepreneurial ecosystem

Medium term—3 years

Objective	Performance indicator	Target (T) ending	Result Fiscal 2020	Comment
Support women-led tech firms	$ authorized to women in tech (VC) ($ in millions, cumulative to fiscal 2020)	T2020 50	**58.4**	BDC committed to providing a cumulative $50 million over a three-year period (up to fiscal 2020) to support women in tech. The size of the Women in Technology Venture Fund was increased to $200 million as a result of the 2018 federal budget. The fund continued its momentum in fiscal 2020, surpassing the three-year target.
Support women entrepreneurs	$ authorized, BDC Financing and GTC, for majority women-owned businesses ($ in millions, cumulative fiscal 2019 to fiscal 2021)	T2021 1,400	**1,076**	BDC has committed to providing a cumulative $1.4 billion over three years (to fiscal 2021) in financing to majority women-owned businesses. The strides we continue to make are thanks to a network of more than 130 experienced and dedicated champions who are supporting women entrepreneurs in their quest to start and grow successful businesses. We are tracking to achieve our target.
Support Canada's most promising firms and enable them to contribute fully to the economy	Total revenue of high-impact firms that participate in the Growth Driver Program ($ in millions)(6)	T2020 8,800	**6,030**	As predicted last year, the three-year target was not met due to a change in strategy after year one. At that time, the Growth Driver Program evolved in scope and breadth. This led to a lower number of clients in the program than originally planned to allow for more impactful interventions per client. Since the launch of the program, GDP has touched over 200 clients who, on average, have $30 million in annual revenue.
Help entrepreneurs take advantage of global opportunities	# of clients who export(7)	T2020 6,350	**7,216**	BDC continues to provide financing and advice to help clients build their presence abroad. Working with partners, especially Export Development Canada, allows BDC to have a more significant impact on entrepreneurs wanting to expand globally.

Medium term—3 years (continued)

Unless otherwise noted, all data are sourced from BDC's portfolio.

(6) The Growth Driver Program evolved in scope and breadth since its inception to target fewer clients than originally planned and allow for more impactful interventions per client.

(7) The target for this measure was approved in fiscal 2017 for a three-year period ending in fiscal 2020. Therefore, despite an estimated increase in the number of clients who export in fiscal 2019, the fiscal 2020 target remains unchanged. It will be revised after the three-year period is over.

Management's Discussion and Analysis | Expected results and performance indicators

Increasing access to capital and advice for entrepreneurs | Accelerating growth, innovation and productivity for targeted entrepreneurs | Improving the Canadian entrepreneurial ecosystem

Long term—5 years

Objective	Performance indicator	Target Fiscal 2022	Result Fiscal 2020	Comment
Fulfill its complementary role by serving underserved entrepreneurs	% of BDC Financing portfolio that is sub-investment grade(8)	Maintain a minimum of 93	90.5	BDC activities are complementary to those of other financial institutions. Given that BDC was operating in a favorable economic environment through most of fiscal 2020, the risk profile of clients improved toward investment grade ratings. It is expected the trend will be reversed in fiscal 2021 and trend towards the long-term target.
Provide financing and advisory services that enable clients to succeed	% of clients who reported a positive impact on their business following the services they received from BDC(9)	Maintain a minimum of 89	92	BDC continues to ensure clients receive tailored support that meets their needs. The strong result demonstrates the impact the Bank's employees, products and tailored solutions have on Canadian entrepreneurs.
Help restore the VC asset class to profitability to attract private sector investors	BDC direct VC funds total value to paid-in capital (TVPI)(10)	1.25 or higher	1.61	BDC aims to reach profitability in its venture capital operations to attract investors to this asset class. Venture Capital exceeded the TVPI target.
Accelerate entrepreneurs' competitiveness	Results of BDC impact study(11)	BDC has a positive impact on revenue growth	9.3	BDC strives to have a positive influence on the sales growth of businesses. The latest study performed by Statistics Canada shows that BDC clients achieved better results in terms of revenue growth, productivity growth and employment growth than they would have achieved if they had not turned to BDC.
Increase the amount of capital available to Canada's promising cleantech firms	$ accepted, Cleantech Practice ($ in millions, cumulative fiscal 2018 to fiscal 2022)	600	244	BDC has committed to providing a cumulative $600 million over five years (fiscal 2018 to fiscal 2022) in financing to cleantech firms. Since the launch of the initiative, we have achieved good results with close to half of funds committed, a strong network of partners in place and a promising pipeline of cleantech firms to support.

Unless otherwise noted, all data are sourced from BDC's portfolio.

(8) Sub-investment grade is rated BB+ or less.

(9) Source: BDC Client Voice Survey (excludes Venture Capital).

(10) Total value to paid-in capital (TVPI), a venture capital industry standard metric, is the ratio of the current value of investments to the original amount invested. BDC's direct VC funds are Information Technology (IT), Healthcare, Industrial, Clean and Energy Technology (ICE), Industrial Innovation Venture Fund, Co-Investments and Women in Tech.

(11) Measuring BDC's Impact on Clients (2008–2015), May 2019 https://w w w.bdc.ca/en/documents/analysis_research/measuring-bdc-impact-on-clients-may-2019.pdf. This measure is calculated by Statistics Canada and refers to the average percentage points of revenue growth of BDC clients that received both financing and advisory services above that of non-clients (control group of similar businesses), after one year.

3 Analysis of Financial Results

Lines of business

BDC reports on six business lines: Financing, Advisory Services, Growth & Transition Capital (GTC), Venture Capital (VC), Venture Capital Incentive Programs (VCIP) and Cleantech Practice. Starting in fiscal 2019, Venture Capital Action Plan (VCAP) and the new Venture Capital Catalyst Initiative (VCCI), two government-sponsored programs managed by BDC, are now presented as one business segment under the Venture Capital Incentive Programs (VCIP).

Effective in 2020, BDC adopted IFRS 16, *Leases* and elected not to restate comparative information. Refer to Note 4—*Adoption of IFRS 16* to the Consolidated Financial Statements for more details on the financial impact of applying the new framework.

Activities

The Business Development Bank of Canada (BDC) is the only bank devoted exclusively to Canadian entrepreneurs. Our purpose is to help Canadian entrepreneurs succeed. We do that by providing financing, capital and advice.

BDC Financing helps improve the competitiveness of small and medium-sized enterprises (SMEs) by providing term lending and collaborating with other financial institutions to increase credit availability in the market through co-lending, syndicated loans and indirect financing. During the year, clients of Financing accepted a total of $7.4 billion in loans, an increase of 2.5% compared to $7.2 billion in fiscal 2019.

During fiscal 2020, BDC continued to evolve its Financing business by leveraging digital technologies making it faster and easier for entrepreneurs to apply for a loan. Significant investments were made to our lending platform and mobile applications. Business owners can apply to borrow up to $100,000 through the Online Financing platform, while existing clients can obtain a pre-approved loan for up to $750,000 via our Express Loan offering. Acceptances for Online Financing loans and for the Virtual Business Centre reached $477.4 million, an increase of 11.6% compared to prior year.

Starting January 2018, BDC committed $1.4 billion in financing over three years for majority women-owned businesses. BDC has since authorized $1.1 billion in loans, which is on target with its objective, and over the past three years, BDC has already doubled the number of women entrepreneurs it finances. To help women succeed, BDC has made it a priority to support them at every step of their business from accessing capital to finding networks, mentors and resources.

BDC Advisory Services provides entrepreneurs with high-value advisory services, in the form of a variety of solutions for small, medium and larger companies, as well as free online educational content and a program targeting high-growth firms. Advisory Services achieved strong results in fiscal 2020, with net contracts signed amounting to $30.7 million, for a 14.4% increase compared to $26.8 million recorded last year.

GTC provides cash flow, mezzanine, quasi-equity and equity financing to support the growth and transition projects of SMEs. Clients of GTC accepted $463.3 million in financing for fiscal 2020, compared to $388.8 million for fiscal 2019. The increase of 19.2% compared to last year reflects strong demand for customized financing solutions for high-growth companies, such as Unitranche and Quasi-Equity, and special initiatives for asset-light businesses.

GTC has invested over $455.9 million in change-of-ownership transactions since December 2017 and is on track with its pledge to invest $900 million in such deals over five years.

Venture Capital invests directly in companies in multiple sectors and is also Canada's largest investor in private funds. BDC continued to strengthen the innovation ecosystem with its venture capital activities. These activities helped Canadian innovators launch and grow technology-focused businesses and commercialize innovations, while also serving to build the skills of VC fund managers. In fiscal 2020, Venture Capital authorized investments totalling $244.2 million, compared to $247.2 million last year.

In fiscal 2020, BDC's Women in Technology Venture Fund (WIT) directly invested $25.2 million into 15 companies through new and follow-on investments. Focused also on supporting the development of the ecosystem for women in tech and investments roles, the fund invested in several ecosystem initiatives including $8.5 million into three additional emerging managers with a female General Partner and a focus on supporting women-led firms. This brings the total investments since inception of this fund to $58.4 million made in 30 companies and five funds.

In June 2019, BDC launched the $250 million Industrial Innovation Venture Fund which focuses on technological innovations in the industrial sector. Our commitment reached $15.6 million in fiscal 2020.

On behalf of the Government of Canada, BDC continued to manage Venture Capital Incentive Programs, which includes $390 million for VCAP to support promising Canadian start-ups and $371 million for VCCI. Introduced in fiscal 2019, VCCI aims to increase the availability of late stage VC and support underrepresented groups, such as women, diverse entrepreneurs and management teams, as well as emerging regions and sectors. Authorizations for VCCI reached $65.0 million in fiscal 2020 for a total commitment to date of $363.4 million.

Cleantech Practice will deliver $600 million in additional capital entrusted to BDC by the federal government to help build globally competitive Canadian cleantech firms and a long-term, commercially sustainable cleantech industry that can attract significant private capital investment. In fiscal 2020, a further $100.0 million was committed to cleantech firms bringing the total net commitment since inception to $243.7 million. This commitment includes both direct investments (debt and equity) of $189.4 million and indirect investments to cleantech-focused funds of $54.3 million ($73.6 million and $39.4 million respectively in fiscal 2019).

Support to entrepreneurs during the COVID-19 pandemic

In March, the Government of Canada started announcing a series of initiatives to better help Canadian businesses go through the COVID-19 pandemic, including the Business Credit Availability Program (BCAP) in collaboration with private sector financial institutions. BDC also deployed measures including principal postponement, reduced interest rates and working capital loans.

Financial results overview

For the analysis of financial results, please also refer to Note 26—*Segmented Information* to the Consolidated Financial Statements.

The outbreak of the Coronavirus has resulted in significant disruptions to business operations, and increase in economic uncertainty, adversely impacting global commercial activity and contributing to significant ongoing volatility and declines in the global financial markets. BDC's Consolidated Financial Statements for the year ended March 31, 2020 reflect the impact of the pandemic and as a result, a consolidated net loss was incurred.

Consolidated net income (loss)

For fiscal 2020, BDC incurred a consolidated net loss of $218.0 million. The decrease of $1.1 billion compared to net income of $885.6 million reported in fiscal 2019 was largely due to higher provision on expected credit losses and fair value depreciation as a result of current economic uncertainties. Net loss attributable to BDC's shareholder amounted to $193.0 million, while net loss of $25.0 million was attributable to non-controlling interests. Non-controlling interests relate to Growth & Transition Capital and Venture Capital operations.

Net income from Financing was $32.1 million, a decrease of $589.2 million from last year. The decrease in profitability was mainly due to higher provision to cover the expected credit losses related to economic shock caused by the COVID-19.

Advisory Services reported a net loss of $46.8 million, slightly lower than the net loss of $49.8 million recorded last year. Revenue for fiscal 2020 was strong and reached $29.2 million compared to $25.1 million last year, which reflects BDC's continuous enhancements to its non-financial services to ensure entrepreneurs have the knowledge and skills they need to overcome their challenges and scale-up.

Growth & Transition Capital recorded a net loss of $17.8 million for fiscal 2020, compared to a net income of $73.4 million last year. The unfavourable results were mainly due to higher net fair value depreciation on investments resulting from the impact of the pandemic.

Venture Capital recorded a net loss of $102.0 million for fiscal 2020, compared to a net income of $194.2 million recorded last year. VC's financial results were unfavourably impacted by the Coronavirus crisis which resulted in higher net fair value depreciation on investments due to uncertainty and volatility in the markets.

VCIP recorded a net loss of $72.1 million, compared to a net income of $53.1 million last year, due to a higher net fair value depreciation on investments resulting from the negative impact of the current crisis mainly on VCAP's funds.

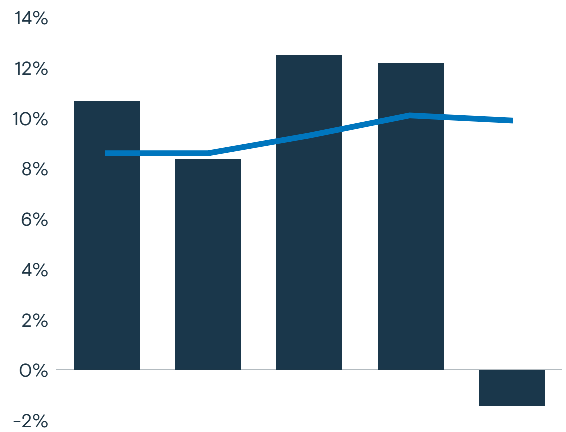
Cleantech Practice posted a net loss of $11.4 million, compared to a net loss of $6.6 million last year. Results were negatively impacted by higher net change in unrealized depreciation of investments amid falling capital markets.

Net loss attributable to non-controlling interests was $25.0 million in fiscal 2020 ($0.8 million in net loss from Growth & Transition Capital and $24.2 million from Venture Capital), compared to net income of $7.1 million in fiscal 2019 ($4.5 million in net income from Growth & Transition Capital and $2.6 million in net income from Venture Capital). The decrease in net income attributable to non-controlling interest was mainly due to higher net change in unrealized depreciation on investments.

Adjusted return on common equity

BDC's adjusted return on common equity (ROE) was -1.4% in fiscal 2020, lower than the 10-year moving average of 9.9%, as a result of BDC's net loss in fiscal 2020.

Adjusted return on common equity (ROE)
as at March 31



	2016	2017	2018	2019	**2020**
Adjusted ROE[1]	10.6%	8.3%	12.4%	12.1%	**-1.4%**
Adjusted ROE—10-year moving average	8.6%	8.6%	9.3%	10.1%	**9.9%**

(1) Adjusted ROE is calculated based on equity attributable to BDC's shareholder (See the Glossary on page 140 for a detailed definition).

Consolidated net income (loss)—by business segment
for the years ended March 31 ($ in millions)

	2020	2019	2018	2017	2016
Financing	**32.1**	621.3	613.7	450.7	444.9
Advisory Services	**(46.8)**	(49.8)	(51.0)	(45.8)	(31.6)
Growth & Transition Capital	**(17.8)**	73.4	71.2	44.6	53.7
Venture Capital	**(102.0)**	194.2	159.3	5.2	67.4
Venture Capital Initiative Programs	**(72.1)**	53.1	25.7	10.1	3.3
Cleantech Practice	**(11.4)**	(6.6)	(0.6)	–	–
Net income (loss)	**(218.0)**	885.6	818.3	464.8	537.7
Net income (loss) attributable to:					
BDC's shareholder	**(193.0)**	878.5	775.0	466.0	535.4
Non-controlling interests	**(25.0)**	7.1	43.3	(1.2)	2.3
Net income (loss)	**(218.0)**	885.6	818.3	464.8	537.7

Consolidated comprehensive income (loss)
BDC reported a consolidated comprehensive loss of $125.0 million for fiscal 2020, compared to consolidated comprehensive income of $817.7 million last year. Fiscal 2020 consolidated comprehensive loss comprised $218.0 million in consolidated net loss and $93.0 million in other comprehensive income. The other comprehensive income for the year was mostly due to the remeasurement gain on the net defined benefit asset or liability of $91.6 million, compared to a loss of $76.2 million in fiscal 2019. For the most part, this gain was caused by higher discount rates used to value the net defined benefit liability, offset by lower returns on pension plan assets. For further details, refer to Note 20—*Net Defined Benefit Asset or Liability* to the Consolidated Financial Statements.

Performance against objectives

The consolidated net loss of $218.0 million was significantly lower than the corporate plan objective of $586.2 million in net income. All business lines, except for Advisory Services, achieved lower results than planned. Excluding the impact of COVID-19 in the month of March, net income would have exceeded the objective we had forecasted in our Corporate Plan.

Financing's net income of $32.1 million was lower by $569.5 million compared to corporate plan, primarily due to a higher provision for expected credit losses related to COVID-19.

Advisory Services' net loss of $46.8 million was $2.7 million lower than expected as a result of higher revenue and lower-than-anticipated operating and administrative expenses.

Consolidated comprehensive income (loss)
for the years ended March 31 ($ in millions)

	2020	2019	2018	2017	2016
Net income (loss)	**(218.0)**	885.6	818.3	464.8	537.7
Other comprehensive income (loss)					
Items that may be reclassified subsequently to net income					
Net change in unrealized gains (losses) on fair value through other comprehensive income assets	**2.5**	7.0	(3.6)	(1.7)	(3.0)
Net change in unrealized gains (losses) on cash flow hedges	**(1.1)**	1.3	(0.1)	0.6	(1.1)
Total items that may be reclassified subsequently to net income	**1.4**	8.3	(3.7)	(1.1)	(4.1)
Items that will not be reclassified to net income					
Remeasurements of net defined benefit asset or liability	**91.6**	(76.2)	(36.8)	72.8	(39.5)
Other comprehensive income (loss)	**93.0**	(67.9)	(40.5)	71.7	(43.6)
Total comprehensive income (loss)	**(125.0)**	817.7	777.8	536.5	494.1
Total comprehensive income (loss) attributable to:					
BDC's shareholder	**(100.0)**	810.6	734.5	537.7	491.8
Non-controlling interests	**(25.0)**	7.1	43.3	(1.2)	2.3
Total comprehensive income (loss)	**(125.0)**	817.7	777.8	536.5	494.1

Growth & Transition Capital's net loss of $17.8 million also contributed to the negative variance of $70.3 million compared to the corporate plan objective. The impact of the Coronavirus crisis resulted in higher net change in unrealized depreciation of investments, offset by higher net revenue on investments recorded during the year.

Both Venture Capital's and Venture Capital Incentive Programs' net income were significantly lower than expected (unfavourable variances of $106.8 million and $57.5 million respectively), mainly due to a higher-than-anticipated net fair value depreciation on investments due to uncertainty and volatility in financial markets severely impacted by the global outbreak.

Cleantech Practice's net loss of $11.4 million was higher than anticipated by $2.8M mainly due to lower net change in unrealized depreciation of investments.

Financing

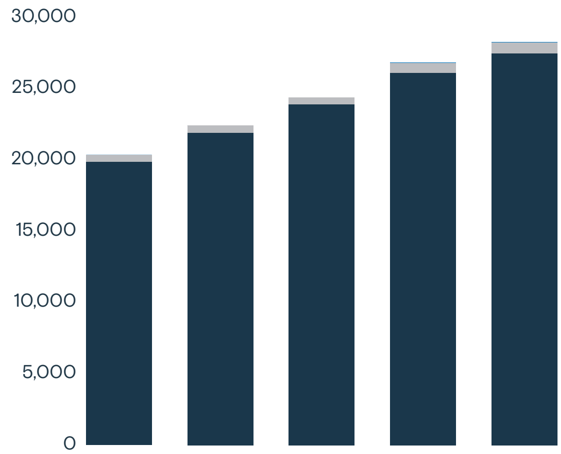
Financing provides term lending to SMEs at each stage of their business journey and helps them improve their competitiveness. BDC also works closely with other financial institutions to increase credit availability in the market through co-lending, syndicated loans and indirect financing.

Again this year, we continued to facilitate access to financing by simplifying our processes and enhancing the use of digital technologies, such as our mobile and online banking platform, to offer entrepreneurs the level of service that meets their expectations.

Financing portfolio

The financing portfolio comprises mainly loans and asset-backed securities (ABS), totalling $28.1 billion net of the allowance for expected credit losses of $1.2 billion.

Financing portfolio
as at March 31 ($ in millions)

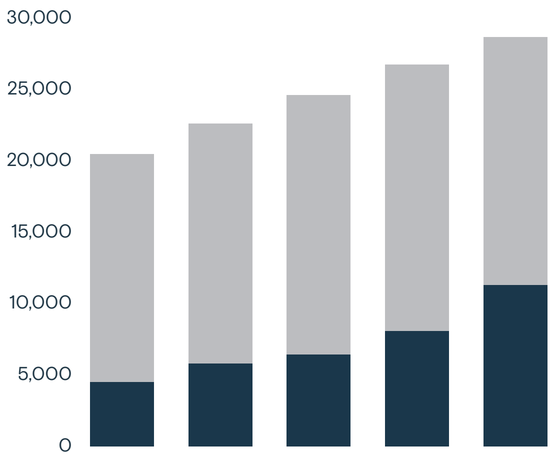


	2016	2017	2018	2019	**2020**
Loan portfolio[(1)]	19,718	21,752	23,728	25,916	**27,273**
Asset-backed securities portfolio	510	518	473	700	**778**
Subordinate financing portfolio	–	–	10	12	**13**
Total Financing portfolio	20,228	22,270	24,211	26,628	**28,064**

(1) Net of allowance for expected credit losses of $1.2 billion.

Financing's loan portfolio, before allowance for expected credit losses, increased by 7.3% from $26.5 billion a year ago to $28.5 billion as at March 31, 2020, mainly due to growth in the volume of acceptances. The closing loan portfolio comprised $27.4 billion in performing loans and $1.1 billion in impaired loans. As at March 31, 2020, 60.5% of the loan portfolio was composed of floating-rate loans, lower than the fiscal 2019 level of 69.9% reflecting the strong demand for fixed-rate loans.

Financing loan portfolio (gross)
as at March 31 ($ in millions)



	2016	2017	2018	2019	**2020**
Fixed-rate loan portfolio	4,474	5,739	6,371	8,002	**11,234**
Floating-rate loan portfolio	15,849	16,710	18,062	18,543	**17,238**
Total loan portfolio	20,323	22,449	24,433	26,545	**28,472**

Financing results

Financing recorded a net income of $32.1 million for the year, compared to a net income of $621.3 million in fiscal 2019. The unfavourable variance with last year is driven by higher provision for expected credit losses to cover for economic uncertainty arising from the covid-19 pandemic.

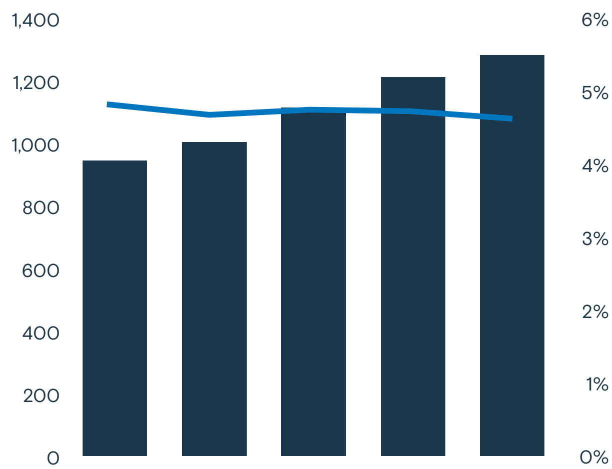
Net interest, fee and other income

Net interest income reflects interest income less interest expense on borrowings. Net interest income reached $1,300.6 million in fiscal 2020, compared to $1,229.4 million in fiscal 2019. The increase of $71.2 million was primarily the result of growth in the portfolio mainly in the fixed rate portfolio. The net interest income margin, the ratio of net interest income to the average loan portfolio, slightly decreased from 4.68% in fiscal 2019 to 4.58% in fiscal 2020, reflecting high levels of market liquidity.

Financing results
for the years ended March 31 ($ in millions)

	2020	2019
Net interest income	**1,300.6**	1,229.4
Fee and other income	**22.7**	21.1
Provision for expected credit losses	**(772.5)**	(179.9)
Net change in unrealized appreciation (depreciation) of investments	**1.7**	1.4
Net gains (losses) on other financial instruments	**0.2**	1.1
Net foreign exchange gains (losses)	**(2.5)**	(6.1)
Income before operating and administrative expenses	**550.2**	1,067.0
Operating and administrative expenses	**518.1**	445.7
Net income from Financing	**32.1**	621.3

Financing net interest income
for the years ended March 31 ($ in millions)



	2016	2017	2018	2019	**2020**
Net interest income	958.2	1,019.2	1,131.0	1,229.4	**1,300.6**
As a % of average Financing portfolio	4.77%	4.63%	4.70%	4.68%	**4.58%**

Financing results
for the years ended March 31 (as % of average portfolio)

	2020	2019
Net interest income	**4.6%**	4.7%
Fee and other income	**0.1%**	0.1%
Provision for expected credit losses	**(2.7%)**	(0.7%)
Net change in unrealized appreciation (depreciation) of investments	**0.0%**	0.0%
Net gains (losses) on other financial instruments	**0.0%**	0.0%
Net foreign exchange gains (losses)	**0.0%**	0.0%
Income before operating and administrative expenses	**2.0%**	4.1%
Operating and administrative expenses	**1.8%**	1.7%
Net income from Financing	**0.2%**	2.4%

Provision for expected credit losses

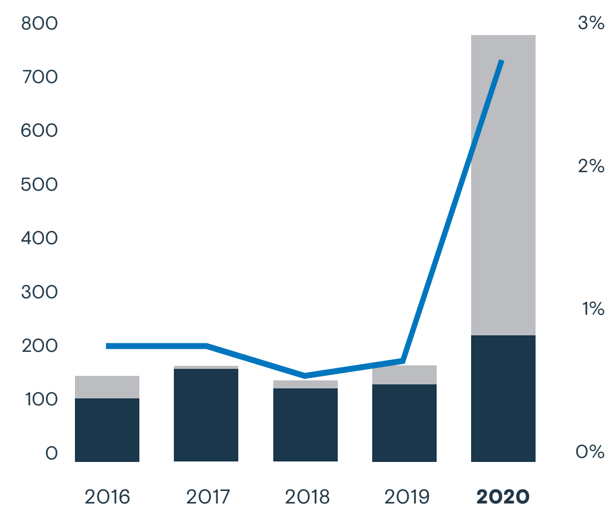
The provision for expected credit losses is the amount charged to income to maintain the total allowance at a level considered adequate to absorb the credit losses expected in the portfolio at the statement of financial position date. Effective in fiscal 2019, BDC adopted IFRS 9, *Financial Instruments* which introduced an expected credit loss (ECL) model that differs significantly from the previous IAS 39 incurred loss model. As required by IFRS 9, the ECL model calculates a probability-weighted estimate which incorporates forward-looking information representing three macro-economic scenarios.

In fiscal 2020, Financing recorded a provision for expected credit losses of $772.5 million compared to $179.9 million in fiscal 2019, representing an increase of $592.6 million. The provision for expected credit losses on performing loans was $538.6 million, compared to $33.7 million in fiscal 2019. The increase is mainly attributable to the change in macro-economic assumptions given the current public health crisis. The scenarios and weightings for the fiscal year-end reflect the impact of the crisis as the shutdown of non-essential businesses and the physical distancing measures have impacted economic activity across Canada. The provision for expected credit losses on impaired loans was $233.9 million compared to $146.2 million in fiscal 2019.

A significant factor influencing the allowance on impaired loans is the volume of loans that were downgraded from performing to impaired status. When financial conditions deteriorate, more loans default. When they default, we classify them as impaired and record an amount equal to the net exposure in the allowance for expected credit losses on impaired loans. The percentage of these downgrades increased to 3.1% of the opening performing portfolio in fiscal 2020, compared to 2.5% for fiscal 2019, whereas the provision for expected credit losses on impaired loans increased to 0.8% of the average portfolio.

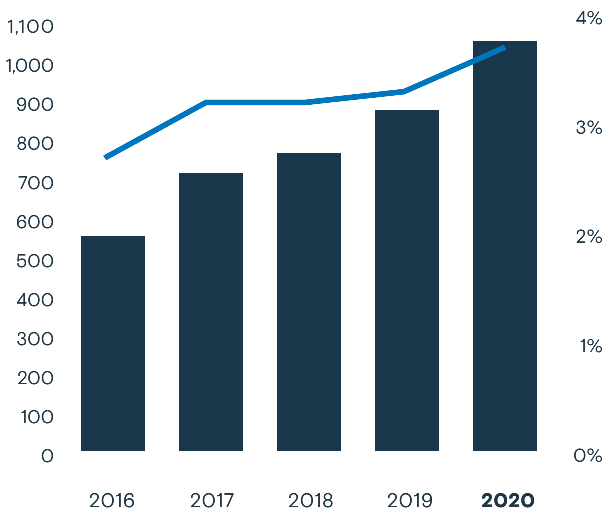
BDC closely manages the $1.1 billion in impaired loans, which increased by $178.8 million in fiscal 2020. Impaired loans represented 3.7% of the total portfolio on March 31, 2020, higher than the 3.3% on March 31, 2019.

Provision for expected credit losses on loans
for the years ended March 31 ($ in millions)



	2016	2017	2018	2019	**2020**
Impaired	120.9	173.5	138.5	146.2	**233.9**
Performing	40.0	6.0	15.0	33.7	**538.6**
Provision for expected credit losses on loans	160.9	179.5	153.5	179.9	**772.5**
As a % of average loan portfolio	0.8%	0.8%	0.6%	0.7%	**2.7%**

Impaired portfolio
as at March 31 ($ in millions)

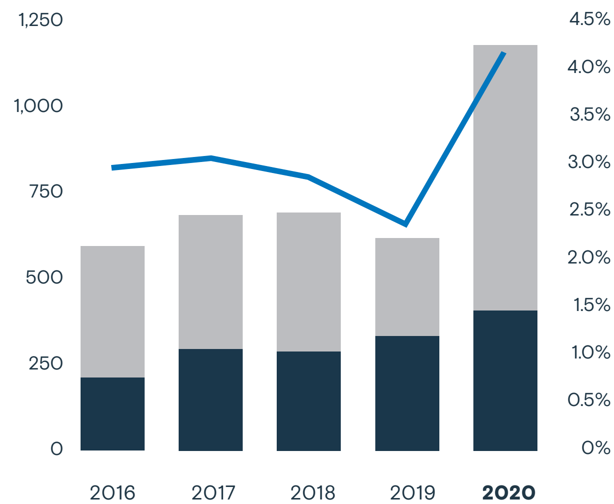


	2016	2017	2018	2019	2020
Impaired portfolio	554.7	718.3	770.6	882.8	**1,061.6**
Impaired portfolio as a % of total loan portfolio	2.7%	3.2%	3.2%	3.3%	**3.7%**

The total allowance for expected credit losses increased to $1.2 billion on March 31, 2020, compared to $629.2 million in fiscal 2019. The total allowance represented 4.2% of the total loans outstanding, higher than the 2.4% recorded last year as a result of a $494.0 million increase in the allowance on the performing portfolio and by a $75.9 million increase in the allowance on the credit impaired portfolio.

To read more about credit risk management, please refer to Note 24—*Risk Management* to the Consolidated Financial Statements.

Allowance for expected credit losses
as at March 31 ($ in millions)



	2016	2017	2018	2019	2020
Impaired	215.7	300.9	293.6	338.7	**414.7**
Performing	390.0	396.0	411.0	290.5	**784.5**
Total allowance	605.7	696.9	704.6	629.2	**1,199.2**
Total allowance as a % of total loan portfolio	3.0%	3.1%	2.9%	2.4%	**4.2%**

Net gains or losses on other financial instruments
Net gains or losses on other financial instruments are mainly the result of fair value changes to long-term notes and derivatives due to fluctuations in market conditions. The realized gains or losses are incurred when financial instruments are repurchased prior to maturity.

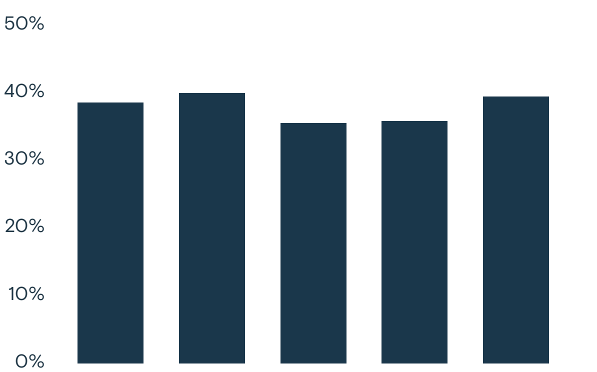
During fiscal 2020, Financing recorded net gains on other financial instruments of $0.2 million, which included net realized gains of $1.1 million and net unrealized losses of $0.9 million. This compared with net gains on other financial instruments of $1.1 million in fiscal 2019, comprising net realized gains of $2.1 million and net unrealized losses of $1.0 million.

Operating and administrative expenses
Operating and administrative expenses were $518.1 million in fiscal 2020, higher than the $445.7 million recorded last year.

As a percentage of the average portfolio, operating and administrative expenses were 1.8%, compared to the 1.7% recorded in fiscal 2019, reflecting higher investments in processes, technology and digital evolution initiatives including higher staff-related costs to support business growth. BDC continued to leverage its online presence through the Virtual Business Centre and is investing in enhanced mobile capabilities to make it simpler and faster for clients to secure financing.

Operational efficiency
Over the years, BDC has made a concerted effort to achieve efficiencies while fulfilling its role as a development bank and implementing government priorities. BDC carefully manages operating expenses, by identifying and gaining efficiencies, and by improving its efficiency ratio—that is, the expenses incurred to earn each dollar of revenue. (The lower the ratio, the better). The Financing efficiency ratio of 39.2% in 2020, increased from the 2016 ratio of 38.3%. The increase is explained by higher investments in technology and staff level required to support business growth and the digital evolution.

Financing efficiency ratio[1]
for the years ended March 31



2016	2017	2018	2019	**2020**
38.3%	39.7%	35.3%	35.6%	**39.2%**

(1) For the definition of efficiency ratio, refer to the Glossary on page 140.

Performance against objectives
Financing's net income was $569.5 million lower than planned, mainly due to a higher-than-anticipated provision for expected credit losses and higher-than-anticipated operating and administrative expenses.

Net interest, fee and other income was $3.6 million lower than the $1,326.9 million anticipated, mainly due to lower margins on fixed rate loans offset by higher average portfolio. Total operating and administrative expenses of $518.1 million were $29.8 million higher than the corporate plan objective. This is mainly due to increased resources required to support growth and technology advancements.

Financing's closing loan and ABS portfolios at the end of fiscal 2020, net of allowance for expected credit losses, stood at $28.1 billion, which is $0.7 billion lower than the corporate plan objective of $28.8 billion, owing to higher prepayments due to market liquidity. Total acceptances for the year were $7.4 billion on target with the corporate plan objective.

Advisory Services

BDC invests in helping Canadian SMEs grow, innovate, and become more competitive by taking on a significant portion of the costs associated with advisory activities. A BDC study[2] confirms that our advisory services have a long-lasting impact on entrepreneurs and the national economy. Used together, financing and advisory services have an even stronger impact.

In recent years, BDC Advisory Services has significantly grown its revenue and reduced its net investment, while continuously refining its approach to better cater to the unique needs of SMEs.
In fiscal 2020, BDC Advisory Services delivered over 1,600 advisory mandates, efficiently generating impact and supporting both smaller and larger Canadian SMEs.

(2) Measuring BDC's Impact on Clients (2008-2015), May 2019 https://www.bdc.ca/en/documents/analysis_research/measuring-bdc-impact-on-clientsmay-2019.pdf

Net loss from Advisory Services

The offerings of Advisory Services are an ongoing investment in entrepreneurs. Advisory Services' net contracts signed reached $30.7 million in fiscal 2020 compared to $26.8 million last year. The increase of $3.9 million reflects a strong performance across all solutions. Advisory Services recorded a net loss of $46.8 million in fiscal 2020, compared to a net loss of $49.8 million in fiscal 2019. Advisory Services' revenues of $29.2 million in fiscal 2020 were higher than the $25.1 million recorded last year. Operating and administrative expenses of $58.0 million were $0.2 million higher compared to those recorded in fiscal 2019.

Advisory Services
for the years ended March 31 ($ in millions)

	2020	2019
Revenue	**29.2**	25.1
Delivery expenses[1]	**18.0**	17.1
Gross operating margin	**11.2**	8.0
Operating and administrative expenses	**58.0**	57.8
Net loss from Advisory Services	**(46.8)**	(49.8)

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

Performance against objectives

For fiscal 2020, the net loss of $46.8 million from Advisory Services was lower than the corporate plan estimate of $49.5 million. Revenues were strong at $29.2 million, higher than the corporate plan objective of $27.5 million, whereas operating and administrative expenses were on target with corporate plan.

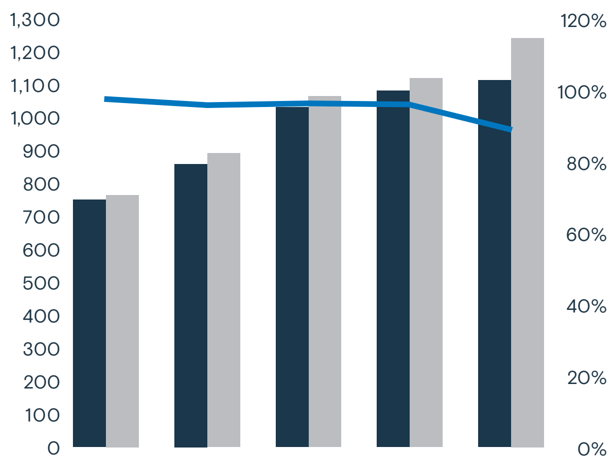
Growth & Transition Capital

Growth & Transition Capital caters to growing businesses, especially high-growth firms with strong management but which often have limited tangible assets to offer as collateral. BDC offers higher risk solutions (cash flow, mezzanine, quasi-equity) to allow entrepreneurs to execute their growth and succession plans while limiting their ownership dilution. BDC also offers minority growth equity in cases where entrepreneurs require capital to rapidly accelerate the growth of their business.

Growth & Transition Capital investment portfolio

GTC's subordinate financing investment portfolio at cost increased by 10.9% to $1.2 billion in fiscal 2020 reflecting strong growth in the level of acceptances. The fair value as a percentage of cost decreased from 96.6% to 89.6% due to the impact of the current economic uncertainty.

Growth & Transition Capital portfolio—total investment
as at March 31 ($ in millions)



	2016	2017	2018	2019	**2020**
Fair value	751.4	860.4	1,032.7	1,082.3	**1,114.2**
Cost	766.0	892.9	1,066.1	1,120.4	**1,243.0**
Fair value as % of cost	98.1%	96.4%	96.9%	96.6%	**89.6%**

Growth & Transition Capital results

Growth & Transition Capital recorded a net loss of $17.8 million for the year, compared to a net income of $73.4 in fiscal 2019. The net loss included $0.8 million attributable to non-controlling interests in fiscal 2020, compared to $4.5 million of net income last year. The unfavourable variance with last year is mainly driven by higher net change in unrealized depreciation on investments due to the negative effects of the current pandemic on the business valuations of our investments.

Growth & Transition Capital results
for the years ended March 31 ($ in millions)

	2020	2019
Net revenue on investments	**118.8**	119.9
Net change in unrealized appreciation (depreciation) of investments	**(90.7)**	(4.7)
Net foreign exchange gains (losses)	**0.4**	0.5
Income before operating and administrative expenses	**28.5**	115.7
Operating and administrative expenses	**46.3**	42.3
Net (loss) income from Growth & Transition Capital	**(17.8)**	73.4
Net (loss) income attributable to:		
BDC's shareholder	**(17.0)**	68.9
Non-controlling interests	**(0.8)**	4.5
Net (loss) income from Growth & Transition Capital	**(17.8)**	73.4

Growth & Transition Capital results
for the years ended March 31 (as % of average portfolio)

	2020	2019
Net revenue on investments	**9.9%**	11.1%
Net change in unrealized appreciation (depreciation) of investments	**(7.5%)**	(0.4%)
Net foreign exchange gains (losses)	**0.0%**	0.0%
Income before operating and administrative expenses	**2.4%**	10.7%
Operating and administrative expenses	**3.9%**	3.9%
Net (loss) income from Growth & Transition Capital	**(1.5%)**	6.8%
Net (loss) income attributable to:		
BDC's shareholder	**(1.4%)**	6.4%
Non-controlling interests	**(0.1%)**	0.4%
Net (loss) income from Growth & Transition Capital	**(1.5%)**	6.8%

Net revenue on investments, comprising net interest income, net realized gains on investments, as well as fee and other income, reached $118.8 million, $1.1 million lower than in fiscal 2019. The decrease was mainly due to higher net realized losses on investments, offset by higher net interest income and higher fee and other income. Refer to Note 26—*Segmented Information* to the Consolidated Financial Statements for more details.

In fiscal 2020, Growth & Transition Capital recorded a net change in unrealized depreciation of investments of $90.7 million compared to $4.7 million last year. The higher unrealized depreciation of investments this fiscal is explained by a higher net fair value depreciation on investments due to market declines and uncertainties owing to the ongoing crisis, offset by higher reversal of fair value depreciation stemming from realized income. As a result of the spread of COVID-19, the fair value measurements of our subordinated financing investments were impacted by the volatility in financial markets. For the fair value of our investments that cannot be derived from active markets, our valuation techniques have taken into consideration inputs that are derived from observable market data and we used a market approach or an income approach adjusted for industry factors.

Net change in unrealized appreciation (depreciation) of investments
for the years ended March 31 ($ in millions)

	2020	2019
Net fair value appreciation (depreciation)	**(103.8)**	(9.0)
Reversal of net fair value depreciation (appreciation) due to realized income and write offs	**13.1**	4.3
Net change in unrealized appreciation (depreciation) of investments	**(90.7)**	(4.7)

Operating and administrative expenses increased by $4.0 million from last year. The increase was mainly due to higher staff levels and higher pension expense. As a percentage of the average portfolio, operating and administrative expenses were stable at 3.9% compared to fiscal 2019.

Performance against objectives

Growth & Transition Capital recorded a net loss of $17.8 million in fiscal 2020, which represents an unfavourable variance of $70.3 million compared to a net income of $52.5 million projected in the corporate plan. The net loss is directly attributable to the pandemic's impact on the fair value of our investments, which decreased by $88.8 million compared to corporate plan. This decline was offset by higher net revenue on investments which generated a positive variance of $23.8 million compared to corporate plan.

Acceptances reached $463.3 million for the year, a strong performance compared to the corporate plan objective of $425.0 million.

Venture Capital

Venture Capital actively supports the development of a healthy and vibrant venture capital (VC) ecosystem to foster innovation in Canada. BDC plays an important role by helping Canadian innovators launch and grow technology-focused businesses and commercialize their innovations, and by building the skills of VC fund managers. It backs approximately 900 companies through direct investments in businesses and indirect investments in 84 VC funds. VC's efforts to make Canadian venture capital a financially viable and attractive asset class for private sector investors have helped propel the market forward.

Direct investment

Since 2012, BDC has been managing six direct investment funds in the areas of information technology (IT); healthcare; industrial, clean and energy technology (ICE); Women in Technology (WIT); industrial innovation and Co-Investments. These operate on the same principles as private sector funds, and have supported the development of 151 innovative companies while generating positive returns.

Our WIT initiative is one of the largest of its kind in the world. This $200-million fund aims to deliver on a dual mandate of supporting tech businesses led by women while helping to create a vibrant support ecosystem for women tech entrepreneurs. To accomplish this mandate, the fund takes a balanced approach that consists of making direct investments in women-led companies, indirect investments in emerging venture funds with female leadership and supporting the development of an ecosystem that allows women to thrive in the tech industry.

In fiscal 2020, BDC launched the $250-million Industrial Innovation Venture Fund focused on technological innovations in the industrial sector. Building on existing strengths, the fund invests in early to late stage ventures in some of Canada's core competitive sectors such as energy, materials and agriculture.

Another component of BDC's direct investing strategy is its co-investment initiative, whereby BDC leverages the large number of indirect relationships it has via its fund investments. BDC co-invests in a select number of larger and rapidly growing technology companies alongside its private sector-led indirect fund partners. This allows BDC to specifically address the needs of the best technology companies for late-stage capital; increase available funding in emerging sectors; and balance early-stage capital with greater late-stage domestic VC funding.

BDC is also a leader in reinforcing the early-stage innovation ecosystem and filling the gap in seed funding with strategic investments in other ecosystem-building activities. One such initiative is BDC's work with a select group of accelerators to identify and invest in top venture start-ups.

Indirect investment

The goal of BDC's indirect investing strategy is to help create a thriving ecosystem of high-performing fund managers, while generating positive results. To achieve this mandate, BDC supports a mix of emerging and established managers, and focuses on helping top-performing funds evolve into globally competitive mature funds over time. BDC indirectly supports 809 tech firms through investments in 84 funds. The performance of BDC's own portfolio of fund investments—a good proxy for Canadian industry performance—has improved significantly in recent years, closing the gap with the more mature U.S. VC industry.

BDC Capital also completed its strategy of co-creating new general partners (GPs) from two of its internal funds. A team from BDC's IT Venture Fund successfully closed a fintech focused fund, Framework Venture Partners, and the BDC Healthcare Venture Fund closed a precision medicine fund, Amplitude Ventures. These funds will continue to contribute to the development of the Canadian venture ecosystem and will be able to use their strong track records to continue attracting both domestic and foreign capital to help create global champions in Canada.

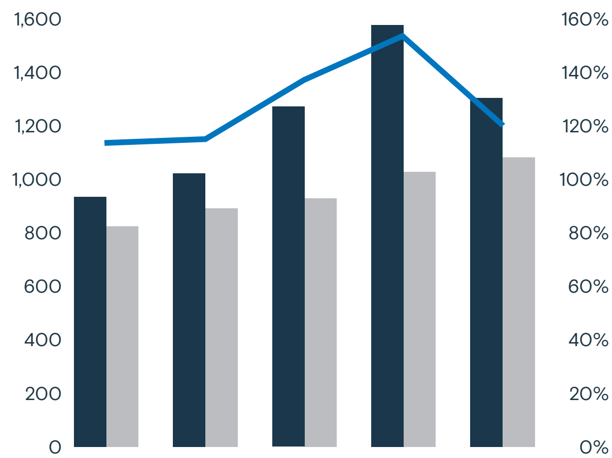
Venture Capital portfolio

The fair value of the portfolio decreased from $1,566.2 million in fiscal 2019 to $1,295.9 million this year. The portfolio is composed of $692.2 million in direct investments and $603.7 million in investments in 84 funds. The portfolio decrease reflects record exits this year indicating the positive impact BDC Capital has in the market. The increase in the portfolio following BDC Capital's disbursements of $223 million was offset by fair value adjustments for the COVID-19 impact which take into account the public market decline and the financial challenges investees are expected to experience. As a result of the significant market declines and uncertainties in the market, the fair value of the total portfolio as a percentage of cost was 120.5% as at March 31, 2020, lower than the 153.3% last year.

The total Venture Capital commitment to investees, which represents the portfolio outstanding at cost plus undisbursed commitments, amounted to $1,524.7 million as at March 31, 2020. This represents $667.3 million committed to direct investments and $857.4 million to private sector investment funds, for an increase of 7.6% compared to last year.

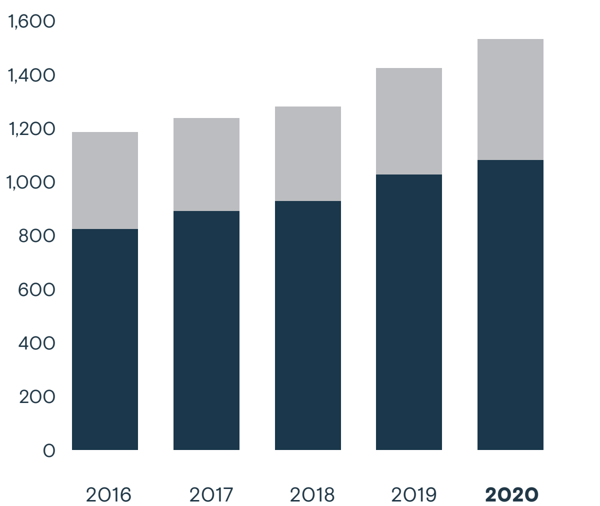
As planned, our commitments to private sector investment funds are greater than those to direct investments. We expect to invest the undisbursed portion of our commitments over the next few years.

Venture Capital portfolio—total investments
as at March 31 ($ in millions)



	2016	2017	2018	2019	**2020**
Fair value	928.0	1,015.7	1,263.1	1,566.2	**1,295.9**
Portfolio (cost)	818.3	884.9	922.9	1,021.4	**1,075.1**
Fair value as % of cost	113.4%	114.8%	136.9%	153.3%	**120.5%**

Total commitment to Venture Capital investees
as at March 31 ($ in millions)



	2016	2017	2018	2019	**2020**
Portfolio (cost)	818.3	884.9	922.9	1,021.4	**1,075.1**
Undisbursed commitment	360.0	345.1	351.3	395.5	**449.6**
Total commitment to Venture Capital investees	1,178.3	1,230.0	1,274.2	1,416.9	**1,524.7**

Venture Capital results

Venture Capital recorded a net loss of $102.0 million, compared to $194.2 million in net income last year. The unfavourable variance from last year was mainly driven by higher net change in unrealized depreciation on investments, offset by higher net revenue on investments and higher net foreign exchange gains.

Venture Capital results
for the years ended March 31 ($ in millions)

	2020	2019
Net revenue (loss) on investments	**263.5**	24.4
Net change in unrealized appreciation (depreciation) of investments	**(361.7)**	179.3
Net foreign exchange gains (losses)	**37.0**	22.7
Income (loss) before operating and administrative expenses	**(61.2)**	226.4
Operating and administrative expenses	**40.8**	32.2
Net income (loss) from Venture Capital	**(102.0)**	194.2
Net income (loss) attributable to:		
BDC's shareholder	**(77.8)**	191.6
Non-controlling interests	**(24.2)**	2.6
Net income (loss) from Venture Capital	**(102.0)**	194.2

The net revenue on investments, which comprised net realized gain or loss on investments, write-offs and other income, was $263.5 million, compared to $24.4 million recorded in fiscal 2019. The increase of $239.1 million in net revenue was explained by higher net realized gains from sales of investments. Proceeds received from divestiture of investments were strong this year at $430.8 million, compared to $124.9 million in fiscal 2019. Fiscal 2020 was a successful year in terms of divestitures, BDC sold its investments in several investees to public companies which is in line with our strategy of supporting the best performing Canadian companies with the technology and talent to assume leadership at the global level.

VC recorded a net change in unrealized depreciation of investments of $361.7 million, compared to a net change in unrealized appreciation of investments of $179.3 million last year.

Net change in unrealized appreciation (depreciation) of investments
for the years ended March 31 ($ in millions)

	2020	2019
Net fair value appreciation (depreciation)	**(134.4)**	177.4
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	**(227.3)**	1.9
Net change in unrealized appreciation (depreciation) of investments	**(361.7)**	179.3

Direct investments recorded fair value depreciation of $55.7 million and indirect investments recorded fair value depreciation of $78.7 million in fiscal 2020 for a total net fair value depreciation of $134.4 million mainly due to the current economic impact as explained above.

Net unrealized foreign exchange gains of $37.0 million on investments were due to foreign exchange fluctuations in the U.S. dollar. BDC uses foreign exchange contracts to hedge U.S. dollar proceeds, following the occurrence of a liquidity event under which a venture capital investment is monetized as cash.

Operating and administrative expenses were $40.8 million, higher than the $32.2 million recorded last year mainly due to an increase in the number of employees to better support Venture Capital's ecosystem and portfolio growth.

Venture Capital's net loss attributable to non-controlling interests was $24.2 million for the year, $26.8 million lower than last year. The decrease in non-controlling interests was due to higher net fair value depreciation.

Performance against objectives
Venture Capital recorded a net loss of $102.0 million in fiscal 2020, compared to a net income objective of $4.8 million in the corporate plan. The unfavourable variance of $106.8 million is due to higher-than-anticipated net change in unrealized depreciation on investments resulting from the Coronavirus impact. This was offset by higher net revenue on investments and net foreign exchange gains on investments. Net loss attributable to non-controlling interests of $24.2 million was $24.4 million lower than anticipated.

Venture Capital is a risky asset class that is subject to volatility and is difficult to predict. Actual results could significantly differ from plan.

Venture Capital Incentive Programs

Starting in fiscal 2019, Venture Capital Action Plan (VCAP) and the new Venture Capital Catalyst Initiative (VCCI) are now presented as one business segment under the Venture Capital Incentive Programs (VCIP).

BDC plays a leadership role in strengthening the Canadian venture capital ecosystem. Recognizing the importance of venture capital to Canada's economic prosperity, the government asked BDC to manage VCAP and VCCI to help increase available capital for promising innovative Canadian start-ups and create a vibrant and sustainable venture capital ecosystem in Canada led by the private sector.

BDC's role was to provide advice and analysis to support the government's design of VCAP and VCCI; negotiate and make investments as the government's agent; administer the flow of capital; and monitor the initiative for the government.

Through VCAP, the government committed $340 million to four private sector funds of funds and $50 million to four high-performing VC funds. This capital was used to leverage over $904 million in private sector capital and $112.5 million from provincial governments, bringing the total venture capital raised under VCAP to $1.4 billion.

Through VCCI, the government committed $371 million to four private sector funds of funds, five alternative model VC funds and three cleantech funds. This capital is expected to leverage over $1.1 billion in private sector capital and $57.1 million from provincial governments, bringing the total venture capital raised under VCCI to $1.5 billion.

Venture Capital Incentive Programs portfolio

As at March 31, 2020, the total portfolio stood at $419.3 million, compared to $461.6 million last year. The decrease was mainly due to higher fair value depreciation on investments in the month of March 2020 due to the impact of the current economic uncertainties.

Venture Capital Incentive Programs results

VCIP recorded a net loss of $72.1 million, mostly as a result of a net change in unrealized depreciation of investments of $73.3 million related to the decrease in fair value of the underlying funds. Operating and administrative expenses were $2.3 million in fiscal 2020, lower than last year. Last year's operating and administrative expenses included additional start-up costs related to the new Venture Capital Catalyst Initiative.

Venture Capital Incentive Programs results
for the years ended March 31 ($ in millions)

	2020	2019
Net revenue on investments	**2.6**	0.3
Net change in unrealized appreciation (depreciation) of investments	**(73.3)**	55.4
Net foreign exchange gains (losses)	**0.9**	0.2
Income (loss) before operating and administrative expenses	**(69.8)**	55.9
Operating and administrative expenses	**2.3**	2.8
Net income (loss) from Venture Capital Incentive Programs	**(72.1)**	53.1

Performance against objectives

Net loss of $72.1 million was $57.5 million higher than anticipated, mostly due to a higher-than anticipated net change in unrealized depreciation of investments.

Cleantech Practice

Recognizing the importance of giving high-potential innovative cleantech firms access to financing, the federal government requested BDC to further support the growth and expansion of future Canadian global cleantech champions. The 2017 budget allocated $600 million in new capital to BDC for debt and equity transactions that exceed BDC's normal risk appetite. BDC's Cleantech Practice aims to build globally competitive Canadian cleantech firms and a long-term commercially sustainable cleantech industry that will, over time, be able to attract the necessary private sector capital investments to grow.

Cleantech Practice's portfolio at the end of fiscal 2020 was $119.8 million ($113.9 million in subordinate financing investments and $5.9 million in venture capital investments).

Cleantech Practice recorded a net loss of $11.4 million for fiscal 2020 compared to a net loss of $6.6 million for the previous year. The increase in net loss is explained by the net change in unrealized depreciation of investments of $17.2 million, which is partly due to the impact of the pandemic.

Cleantech Practice results
for the years ended March 31 ($ in millions)

	2020	2019
Net revenue on investment	**9.2**	2.9
Net change in unrealized appreciation (depreciation) of investments	**(17.2)**	(5.8)
Net foreign exchange gains (losses)	**0.3**	(0.2)
Income (loss) before operating and administrative expenses	**(7.7)**	(3.1)
Operating and administrative expenses	**3.7**	3.5
Net loss from Cleantech Practice	**(11.4)**	(6.6)

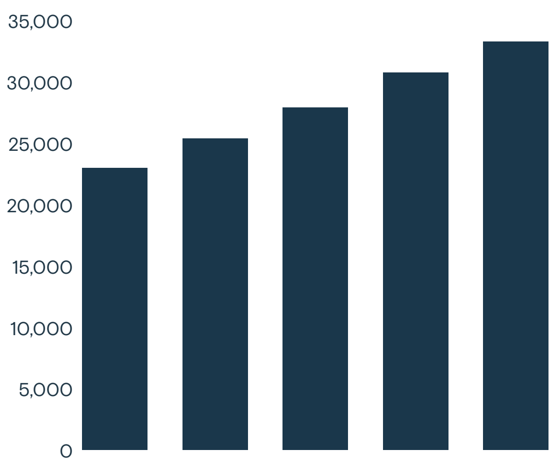
Performance against objectives

Net loss of $11.4 million was $2.9 million lower than the corporate plan objective of $8.5 million net loss due to higher net fair value depreciation.

Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows

Total assets amounted to $33.2 billion, an increase of $2.5 billion from a year ago, largely due to a $1.4 billion increase in the loans portfolio, combined with a $1.1 billion increase in cash and cash equivalents. BDC received a capital injection from its shareholder of $944.0 million in March 2020 to provide relief for Canadian entrepreneurs impacted by the spread of Coronavirus (COVID-19) as part of the Business Credit Availability Program (BCAP). Following the application of IFRS 16, *Leases*, BDC recorded right-of-use assets of $127.5 million and lease liabilities of $137.2 million. Refer to Note 4, *Adoption of IFRS 16* to the Consolidated Financial Statements*, Leases* for additional information.

Total assets—BDC
as at March 31 ($ in millions)



2016	2017	2018	2019	**2020**
22,906	25,317	27,809	30,656	**33,153**

At $27.3 billion (gross portfolio of $28.5 billion net of a $1.2 billion allowance for expected credit losses), the loan portfolio represented BDC's largest asset. The gross loan portfolio has grown by 7.3% since March 31, 2019. BDC remained committed to actively supporting SMEs' needs and helping them improve competitiveness, while continuing to identify and address market gaps in financing across Canada.

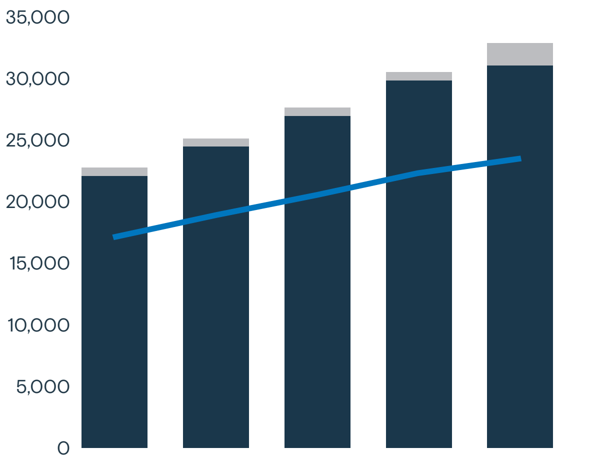
BDC's investment portfolios, which include the subordinate financing, venture capital and asset-backed securities portfolios, stood at $3.7 billion, compared to $3.9 billion as at March 31, 2019. Subordinate financing investments was stable at $1.2 billion as at March 31, 2020 compared to $1.2 billion as at March 31, 2019. Venture capital investments decreased from $2.0 billion last year to $1.7 billion as at March 31, 2020 due to the impact of the current economic conditions on the fair value of our investments. The asset-backed securities portfolio stood at $777.8 million, compared to $700.3 million as at March 31, 2019.

Derivative assets of $12.4 million and derivative liabilities of $16.1 million reflect the fair value of derivative financial instruments as at March 31, 2020. Net derivative fair value decreased by $8.2 million compared to the value as at March 31, 2019, primarily due to foreign exchange impact on forward contracts. BDC acquires derivative financial instruments to manage exposures to interest, currency and other market risks. BDC does not hold derivatives for speculative or trading purposes.

As at March 31, 2020, BDC recorded a net defined benefit asset of $41.8 million related to the registered pension plan, and a net defined benefit liability of $246.4 million for the other plans, for a total net defined benefit liability of $204.6 million. This represents a decrease of $57.1 million compared to the net defined benefit liability as at March 31, 2019, mostly as a result of remeasurement gains recorded during the year. For further information, refer to Note 20—*Net Defined Benefit Asset or Liability* to the Consolidated Financial Statements.

BDC holds cash and cash equivalents in accordance with its treasury risk policy. The Bank's liquidities, which ensure funds are available to meet BDC's cash outflows, totalled $1.8 billion as at March 31, 2020, compared to $704.0 million as at March 31, 2019. The increase is primarily due to the capital injection of $944.0 million received in March 2020 to support entrepreneurs with the Business Credit Availability Program (BCAP) during the COVID-19 health crisis.

Borrowings
as at March 31 ($ in millions)



	2016	2017	2018	2019	**2020**
Liquid assets	680	649	673	704	**1,821**
Portfolios[1]	22,045	24,448	26,917	29,797	**31,013**
Borrowings	17,198	18,977	20,619	22,395	**23,569**

(1) Includes net portfolios, investments and asset-backed securities

For the year ended March 31, 2020, cash flow used by investing activities amounted to $133.6 million. Financing activities provided $2,431.7 million in cash flow, as long-term notes were issued for $2,755.0 million and short-term notes were repaid by an amount of $1,580.3 million. BDC also issued common shares totalling $1,406.0 million ($277.0 million for the Cleantech Practice, $185.0 million for Venture Capital Incentive Programs and $944.0 million for BCAP). Operating activities used $1,180.6 million in cash flows, mainly to support the growth of the loans portfolio. For further information, refer to the Consolidated Statement of Cash Flows on page 61.

As at March 31, 2020, BDC funded its portfolios and liquidities with borrowings of $23.6 billion and total equity of $8.9 billion. Borrowings comprised $19.4 billion in short-term notes and $4.2 billion in long-term notes.

Net defined benefit asset or liability

BDC's pension plan, supplemental plans and other employee future benefits are based on actuarial valuations and assumptions detailed in Note 20—*Net Defined Benefit Asset or Liability* to the Consolidated Financial Statements. Several factors, particularly the discount rate used to value future liabilities, influence the calculation of those obligations. For accounting measurement purposes, the discount rate used at each measurement date is based on market interest rates for long-term, high-quality debt instruments.

BDC's employer contributions to the registered pension plan totalled $27.5 million in fiscal 2020, compared to $27.1 million in fiscal 2019. BDC's best estimate of the contributions to be paid for fiscal 2021 is $23.3 million. For more information regarding BDC's defined benefit pension plan, refer to Note 1—*Act of Incorporation, Objectives and Operations of the Corporation* to the Consolidated Financial Statements.

Further to the directive received in December 2014 from the Governor in Council, BDC must ensure a 50:50 current service cost-sharing ratio between employee and employer. As at December 31, 2019, BDC reached a level of employer contribution that, although not exactly 50:50, is not exceeding 50% of the current service cost, and is administering in accordance with regulations and its funding policy.

BDC funds its registered pension plan in accordance with applicable federal pension legislation and actuarial standards of practice in Canada to ensure proper funding of employee benefit.
As of December 31, 2019, the funded status of the registered pension plan was a going-concern ratio of 143.9% (with a surplus in excess of $536.8 million) and a wind-up/solvency ratio of 101.4%. Mandatory employer current service contribution holiday occurs whenever the going-concern ratio is above 125% and the wind-up/ solvency ratio is above 105%. Consequently, BDC will continue to contribute to the pension fund in future years, as prescribed by the applicable federal pension legislation.

Capital management

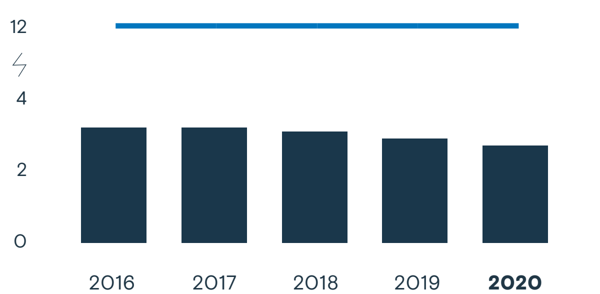
Statutory limitations

The *BDC Act* specifies that the aggregate of borrowings and contingent liabilities in the form of guarantees provided by BDC may not exceed 12 times its equity. This ratio excludes accumulated other comprehensive income (loss). BDC's debt-to-equity ratio as at March 31, 2020, was 2.7:1, compared to 2.9:1 as at March 31, 2019.

In addition, the paid-in capital, the contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments) must not at any time exceed $4.5 billion. As at March 31, 2020, these amounts totalled $4.0 billion, compared to $2.6 billion as at March 31, 2019. Effective April 22, 2020, the Minister of Finance confirmed that the amount of paid-in capital, together with any contributed surplus and any proceeds that have been prescribed as equity, must not at any time exceed $15.0 billion per an amendment to the *Business Development Bank of Canada Act, 1995*.

During the year, a $1.4 billion capital injection was received from the shareholder ($277.0 million for the deployment of the Cleantech Practice, $185.0 million for the Venture Capital Incentive Programs and $944.0 million for BCAP), compared to $125.0 million in fiscal 2019 received for the deployment of Cleantech Practice.

Debt-to-equity ratio
as at March 31



	2016	2017	2018	2019	2020
Actual	3.2	3.2	3.1	2.9	**2.7**
Statutory limit	12.0	12.0	12.0	12.0	**12.0**

Capital adequacy

BDC's capital management framework is based on its Internal Capital Adequacy Assessment Process (ICAAP), which is aligned with the Office of the Superintendent of Financial Institutions' guidelines and the Capital and Dividend Policy Framework for Financial Crown Corporations. BDC's ICAAP excludes Cleantech, VCCI, and other initiatives for BCAP as BDC manages these programs under a specific capital allocation from the shareholder.

The concept that capital has a cost is also embedded in the framework and related policies. It is ensured through strategic and efficient capital allocation to business segments, pricing models based on return on risk adjusted capital (RORAC) and assessment of financial performance against expected historical ranges and limits, as set out in BDC's risk appetite statement.

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 capital status adequacy is BDC's internal capital ratio.

Available capital
Available capital is composed of equity attributable to BDC's shareholder (retained earnings and capital injections) and adjustments aligned with industry practices.

Capital demand
BDC's capital demand represents the capital required to support BDC's risk profile and includes the following three elements:

> economic capital required, which quantifies the capital required to survive multiple concurrent risk events associated with BDC's operations

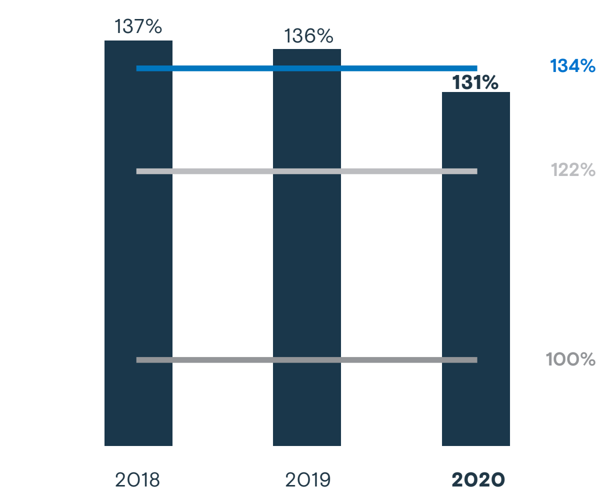
> stress testing reserve, which serves to absorb the volatility of an economic downturn while maintaining BDC's financial strength

> Venture Capital protection reserve, which is held to cover any needed follow-up investments

Operating range
BDC's target capital level also factors in an operating range to mitigate the impact of unplanned capital volatility. It accounts for differences between planned and actual levels of activities, as well as other assumptions that are difficult to predict. The operating range allows any capital in excess of target capital to be paid as dividends to the shareholder in the following fiscal year.

Internal capital ratio
BDC's key measure for determining and assessing the adequacy of its capital status is its internal capital ratio, which is expressed as the level of available capital over the economic capital required. BDC's capital management framework establishes different management zones to closely monitor the internal capital ratio through a complete economic cycle, against a minimum limit (100%), a tolerance threshold in normal economic conditions (122%) and BDC's targeted internal capital ratio (134%). In normal economic conditions, BDC should maintain an internal capital ratio near the target capital ratio and within the operating range.

Internal capital ratio[1]
as at March 31

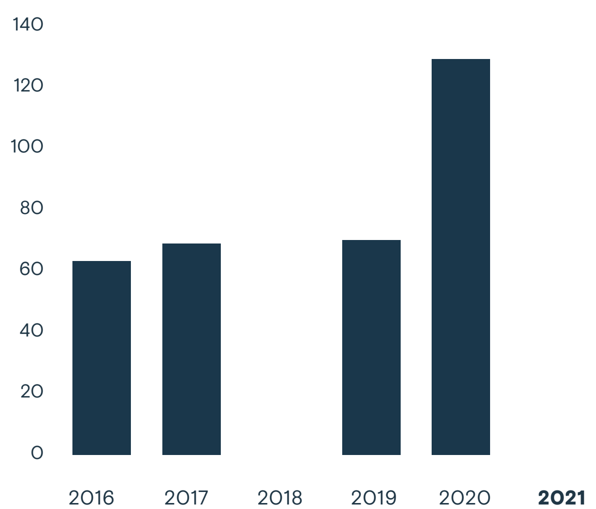


(1) Available capital as a percentage of economic capital required.

BDC's internal capital ratio, as at March 31, 2020, was 130.7%, below the target capital ratio of 134% and the ratio of 135.6% as at March 31, 2019. The decrease in the internal capital ratio is driven by the consolidated net loss of $218.0 million incurred in fiscal 2020 compared to the strong consolidated net income of $885.6 million recorded last year. While the ratio is below target, it is still within the tolerance threshold.

Dividends
BDC revised its dividend policy in fiscal 2017 to align with the dividend methodology included in the new Capital and Dividend Policy Framework for Financial Crown Corporations. Excess capital, calculated as the difference between available capital and capital demand less operating range, is available for additional operational needs and/or dividend payments, subject to the discretion of the Board of Directors. The calculation excludes VCIP, Cleantech Practice, the Business Credit Availability Program (BCAP) and Indigenous Growth Fund.

Dividends
for the years ended March 31 ($ in millions)



	2016	2017	2018	2019	2020	**2021**
Common dividends declared[1]	62.9	68.6	0.0	69.7	128.4	**0.0**

(1) Based on previous year's performance

On May 5, 2020 the Board of Directors' approved a new capital management framework to ensure effective capital management in compliance with regulatory guidelines (OSFI/Basel) and in alignment with other Canadian financial institutions. BDC strives to continuously evolve its capital adequacy techniques and measures to better reflect the Bank's inherent risks while integrating industry best practices. The new capital management framework will incorporate changes in both the available capital definition as well as in the required capital quantification. The new framework will be effective next fiscal year.

Available capital

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

Required capital

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

As of March 31, 2020, there is no excess capital available as per the current capital framework. BDC generated $104.0 million of excess capital with the introduction of the new capital framework, as shown in the tables below. The Board of Directors has decided to retain the dividend in fiscal 2021 due to economic uncertainties related to the Coronavirus pandemic.

	Current framework March 31, 2020	**New framework March 31, 2020**
Equity attributable to BDC's shareholders	**8,891.7**	**8,891.7**
Adjustment to available capital	**1,813.9**	**1,683.7**
Total available capital	**7,077.8**	**7,208.0**
Required capital	**6,562.6**	**6,434.0**
Capital status	**515.2**	**774.0**
Management operating range	**648.8**	**670.0**
Excess capital available for dividends	**–**	**104.0**

Outlook for fiscal 2021

World economic growth was already slowing in 2019 when the COVID-19 outbreak started. The general consensus amongst economists is that the pandemic and lockdowns will cause the largest contraction in global GDP since the Second World War.

We expect Canada's economy to start its path to recovery during the second quarter of fiscal 2021, after lockdowns are eased and businesses are allowed to reopen. Full recovery to pre-COVID-19 economic output is expected between the second half of fiscal 2022 and the end of fiscal 2023.

The damage will be uneven across sectors and provinces. Recovery will take longer for sectors where the risk to public health is perceived to be greater and those that rely on discretionary spending. Others that provide essential services or where social distancing is more easily implemented will do better. The pace of recovery will also vary by region with low oil prices hitting the Prairies particularly hard.

As Canada's bank for entrepreneurs, BDC is playing a critical role in supporting entrepreneurs as they navigate through the COVID-19 pandemic. By rapidly putting in place a series of special measures, we are helping to ensure viable small and medium-sized businesses (SMEs) have access to the capital they need in these difficult times. In response to the crisis, we adapted our processes and made operational changes to accelerate the deployment of capital.

COVID-19 response

With the support of our sole shareholder, the Government of Canada, we launched a series of measures to ensure the flow of credit to businesses. The initiatives extend eligibility criteria to ensure we are meeting the urgent needs of as many viable businesses as possible. Some measures are being delivered in collaboration with Export Development Canada (EDC) and private sector lenders, while others are being delivered directly by BDC. The program includes the following initiatives.

Co-Lending Program for SMEs
Through the Co-Lending Program, BDC will provide support to the operational cash flow needs of SMEs by co-lending with private sector financial institutions 80% of which is provided by BDC, with the remaining 20% provided by the entrepreneur's primary financial institution.

Mid-Market Financing Program
For medium-sized businesses whose financing needs exceed loan amounts available through other BCAP and BDC direct measures, we have launched the Mid-Market Financing Program. Under this program, BDC is making additional credit available to complement businesses' existing debt facilities, working closely with their primary lenders. These commercial loans will take the form of a junior loan, of which 90% is provided by BDC and 10% by the entrepreneur's primary financial institution.

Direct lending
For online loan requests and working capital loans, we are offering flexible terms for qualifying businesses.

Venture Capital
To support Canada's venture capital market, we have launched a Bridge Financing Program. This is a matching convertible note program to increase VC funding to companies that have suffered significant setbacks related to the COVID-19 pandemic. Under this program, BDC will match up to 100% of the contribution of private investor syndicates. BDC's contribution will be in the form of a convertible note with standard market terms.

Advisory Services
BDC Advisory Services has introduced a new Access program. It offers eligible clients the opportunity to benefit from a free consultation with a BDC expert to get advice on how to address challenges related to the COVID-19 crisis.

4 Risk Management

BDC's mandate is to promote and assist in the establishment and development of businesses in Canada, with a focus on small and medium-sized enterprises.

Consistent with our mandate, BDC generally assumes more risks than a typical financial institution to better support SMEs. However, BDC's strong risk management practices and culture enable us to take the risks necessary to fulfill our mandate while ensuring the organization is financially sustainable.

BDC's risk management framework (RMF) outlines the methodology used to manage the risks inherent in BDC's activities, while ensuring the outcomes of risk-taking activities are aligned with BDC's strategy and mandate. It also reinforces a risk management culture across the organization that ensures a high level of risk awareness and makes risk management an integral part of strategic and operational decision-making.

BDC's risk management principles

Key risk management principles that support the organization in our risk governance activities are the following:

> **Risk accountability**: Risk management is everyone's responsibility, from members of the Board of Directors to employees carrying out oversight, business and corporate functions.

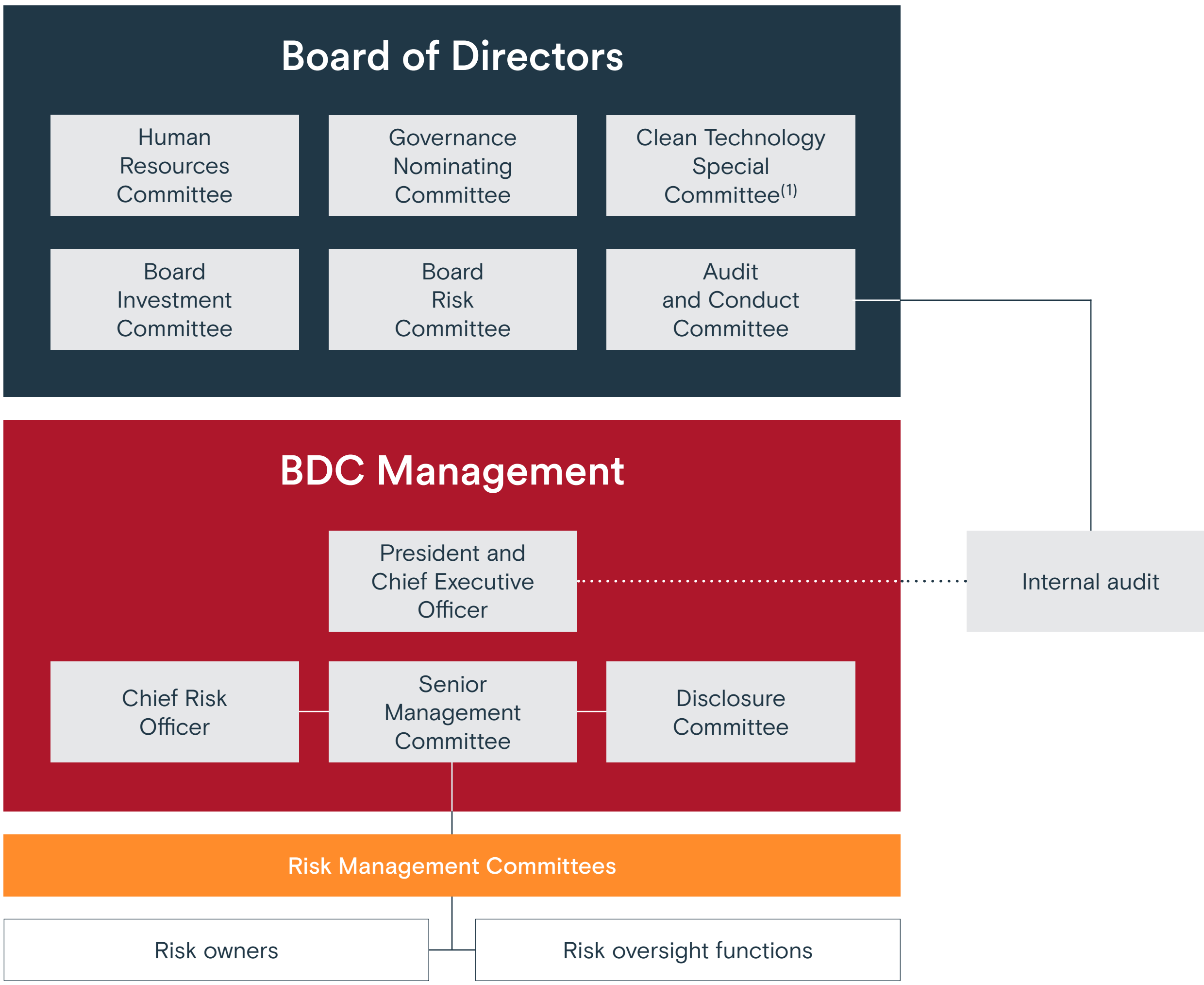
> **Strategic balance**: BDC manages risk by balancing it with our strategic objectives, our mandate to support Canadian entrepreneurs and our ability to return capital to the shareholder in the form of dividends.

> **Risk integration**: BDC integrates risk management into key business processes, activities and information technology management, including strategic, operational, business and budget planning, as well as lending, investing and advisory services activities.

> **Risk challenge**: BDC fosters an open and transparent culture that promotes and encourages the challenging of decisions as part of risk management. The timely escalation of risk issues to the appropriate management level is fundamental to an effective dialogue about risk.

> **Risk governance**: Policies codify comprehensive processes for identifying, analyzing, monitoring and mitigating risk within approved limits. Oversight functions, executive-level reporting and accountability to an independent Board of Directors and the shareholder ensure continuous and objective assessment of risk.

Risk governance framework



Risk owners

- Identify, assess, manage and mitigate risks in all day-to-day activities.

Risk oversight functions

- Design, implement and communicate risk governance, risk and control strategies, and risk management policies, directives and procedures.
- Support first line in the development, management and updating of activities to address governance, risk and controls.
- Objectively provide oversight of first line activities

(1) The Clean Technology Special Committee was merged into the Board Investment Committee during fiscal 2020.

The Board of Directors

The board and its committees oversee risk governance and risk management.

In addition to approving the risk appetite statement, the board also approves risk policies and strategies; ensures BDC's risk management is effective; reviews portfolio and treasury risks; reviews capital adequacy and stress-testing analyses; sets clear levels of delegation of authority for transactions; and ensures an appropriate link between risk and reward.

Although all committees consider risk in their deliberations, as appropriate, three committees—the Board Risk Committee, the Board Investment Committee and the Audit and Conduct Committee—have specific responsibilities for managing risk. For full details on the board and its committees, please see the Corporate Governance section, starting on page 129.

The Board Risk Committee advises the board on how BDC is effectively identifying and managing significant risks. It also reviews BDC's risk profile, including risk appetite statement measures, targets and limits. It regularly reviews risk management policies and reports. The committee also approves transactions above a certain threshold.

The Board Investment Committee advises the board on how effectively BDC is managing our venture capital and private-equity investment activities. The committee also approves transactions above a certain threshold.

The Audit and Conduct Committee assists the board in overseeing financial risks and assesses the financial performance of the Bank and our Consolidated Financial Statements, internal controls, financial reporting, accounting standards, legal and regulatory compliance, and the independence and quality of our internal and external auditors.

BDC management: Risk committees and functions

BDC has implemented a management governance framework to foster a collaborative risk management culture that ensures effective coordination among business units. Each committee helps BDC meet its strategic imperatives while making sure that operations are managed effectively.

The following committees and functions are key elements of this management governance framework and help ensure effective risk management throughout the Bank.

The Senior Management Committee includes the President and CEO, the Chief Financial Officer, the Chief Risk Officer, other operating officers and designated Senior Vice Presidents. It ensures BDC establishes and respects sound risk management strategies and practices. It makes sure BDC has an integrated vision for addressing key strategic, financial (credit, market and liquidity) and operational risks. It also, through the Disclosure Committee, oversees BDC's disclosure obligations and practices.

The Chief Risk Officer is accountable for the executive leadership and direction of BDC's risk operations, processes and systems. The Chief Risk Officer chairs the Risk Management Committee and is a member of the Senior Management Committee. The Chief Risk Officer has unfettered access to the Board Risk Committee, and has the responsibility and authority to identify and address risk issues, as required.

The Risk Management Committee includes senior leaders from various business units and corporate functions. It focuses on risk oversight. As such, the committee ensures that BDC has an adequate and effective risk management framework to identify and evaluate trends in critical issues; evaluate or quantify their probable impact; and ensure BDC is mitigating them within our risk appetite.

More specifically, the committee reviews the quality and the migration of risk in the loan and securitization portfolios, and in venture capital and subordinate financing investments. It also reviews financial performance, capital adequacy and BDC's risk appetite statement; ensures that treasury activities and related asset liability management comply with BDC policy; and receives regular updates on the management of investments related to BDC's pension funds.

The committee reports to the Senior Management Committee and the board on significant risks and related remediation activity.

The Operational Risk Management Committee provides executive oversight, direction and guidance on operational risk governance, risk and control issues arising from the planning and execution of BDC's strategies. The committee is a sub-committee of the Risk Management Committee.

The Valuation Committees oversee the assessment and determination of the fair value of a portfolio of investments. The committees include senior leaders and an external chartered business valuator.

The Compliance and Governance Committee reviews and oversees BDC's policies and corporate directives framework, and compliance with applicable laws.

The Asset-Liability Committee includes the Chief Financial Officer and senior leaders from various business units and corporate functions. It focuses on treasury activities and treasury risk oversight.

BDC's risk management functions are as follows: credit and investment risk management as well as anti-fraud and anti-money laundering monitoring; operational risk management and integrated risk management, which includes portfolio risk management; treasury risk management; and enterprise risk management. Risk management responsibilities include the following elements:

> ensure that BDC applies appropriate risk management principles, policies and corporate directives to manage significant and emerging risks, according to risk thresholds

> develop tools to measure, monitor and report on risks

> provide timely and complete reports on these risks to the Bank's risk management committees

BDC's information security and information technology teams implement infrastructure, governance, processes and activities to protect BDC's electronic information assets and supporting infrastructure against unauthorized access, use, disclosure, modification, damage or loss, while ensuring compliance with regulatory and enterprise requirements.

The internal audit department promotes sound risk management practices and exists to protect the organization by providing reasonable assurance the internal controls put in place by management and the Board of Directors are both adequate and effective.

Key risks

The identification of top risks and/or emerging risks is an integral part of BDC's corporate planning and ongoing monitoring of activities. We identify significant risks that may impact the Bank's capacity to achieve our objectives. Risks are considered by executive management and the Board of Directors and are monitored and remediated as part of BDC's day-to-day risk management activities.

Category	Risk description
Market uncertainty	The risk that market volatility and adverse changes in the macroeconomic environment (such as the COVID-19 pandemic, consumer indebtedness, the Canadian housing market and/or trade disputes) could result in significant changes in interest rates and other market factors that impact loans and transactions.
Cyber security	The risk of technology being used to maliciously access, use or distribute limited or restricted data, disrupt operations or intentionally compromise BDC's brand. This risk broadly impacts financial institutions as the volume and sophistication of cyber-attacks continue to increase.
Human resources	Potential skilled labour shortages arising from competition for key resources, increasing operational demands for specialized skills and knowledge, and a highly demanding workplace with large, varied and concurrent changes underway.
Change management	The large volume and scope of internal initiatives to address organizational priorities and strategies increases the risk of ineffective or untimely execution.

Category	Risk description
Technology innovation	The pace of technological innovation (fintech, AI, robotics, etc.) is impacting the financial industry through changing consumer expectations and habits. At the same time, the adoption and integration of new technologies is occurring continuously throughout BDC.
Climate Risk	Risks associated with climate change and its impact on both BDC and its clients. These include severe weather events, changing economic systems and evolving government and societal responses that may result in a broad range of risks, including strategic reputational, structural and credit-related risks.
Third-party risk	The risk that an increasing reliance on third parties will reduce BDC's organizational resilience, affect the quality of our services and increase our vulnerability to cyber-attacks.
COVID-19 risk	The risk that business disruption, market uncertainty and global recession stemming from the COVID-19 pandemic will lead to higher loan defaults and a higher number of clients who are vulnerable to financial difficulty.

Risk appetite framework and risk appetite statement

The risk appetite framework (RAF) defines BDC's approach to establishing and governing our risk appetite. The RAF is integrated into BDC's strategy development and implementation. It describes our core risk principles, which dictate that BDC will only take risks that:

> we understand, can manage and are aligned with our strategy

> fulfill our mandate to support Canadian SMEs

> are not expected to negatively impact our brand or the shareholder's reputation

The risk appetite statement (RAS) is based on qualitative and quantitative measures that articulate, and allow for reporting on, the board and management's vision for managing the risks BDC is willing to accept in executing our mandate. Risk limits set the boundaries for acceptable risk levels.

Enterprise-wide risk management process

The risk management framework (RMF) provides a consistent and structured approach to managing the risks inherent in BDC's activities while ensuring risk-taking activities are aligned with BDC's strategy and mandate, and conform to the RAS. The RMF outlines the methodology used by BDC to manage risk and reinforce a risk culture that is pervasive throughout the organization.

BDC's Enterprise Risk Management Policy codifies the integrated, enterprise-wide process we use to identify, analyze, accept, monitor, mitigate and report risks. The policy is designed to ensure BDC considers risk in all business activities and makes risk management an integral part of day-to-day decision-making and the annual corporate planning process. The policy defines the roles and responsibilities of board members, management, functional units and employees in implementing the policy. The Board of Directors reviews and approves the policy at least every two years.

The foundation of an effective RMF is the use of common language and a consistent approach to identifying, assessing, measuring and reporting risks. BDC defines risk as the potential for loss or an undesirable outcome that adversely affects the achievement of the Bank's mandate and strategic objectives. BDC has established a risk inventory that defines the following risk categories:

> strategic

> credit and investment

> market and liquidity

> operational

> technology

> regulatory and legal compliance

> reputational

Pandemic risk, as evidenced by the COVID-19 crisis, is a significant risk with the potential to broadly impact all risk categories. It may result in significant business disruption and impact the achievement of BDC's objectives.

BDC's approach to managing risk is based on four pillars of risk management.

Risk identification and assessment
The implementation of integrated risk identification and assessment programs and processes ensures that BDC continuously identifies, understands and assesses existing and emerging risks that evolve as a result of changes in both the internal and external environments. Top and emerging risks are presented to the organization's risk management committees for assessment and discussion. Risks related to all significant projects, new products or services, and policy changes, are also assessed and discussed.

Risk measurement and analytics
Risks throughout the organization are quantitatively and/or qualitatively assessed with up-to-date tools and models, taking into consideration best practices in the financial services industry. This ensures they reflect BDC's policies, corporate directives, standards and tolerance limits. Board members and senior managers use this information to understand BDC's risk profile and portfolio performance.

Risk monitoring and reporting
The continuous monitoring of the potential impact of existing and emerging risks occurs in the normal course of management activities. Business lines, corporate functions, and risk management and oversight functions have established responsibilities associated with the day-to-day monitoring of their respective activities. Integrated risk management (IRM) reports provide a comprehensive quantitative and qualitative assessment of performance against the Bank's risk appetite, risk profile as measured in major risk categories and in depth portfolio monitoring. IRM reports are communicated to senior management and the board.

Risk control
Business lines are responsible for ensuring effective and appropriate controls are described in their respective business rules, and that procedures are complied with by employees. BDC uses the following elements to mitigate risks:

> adequate and clear roles, responsibilities, processes, policies, corporate directives and procedures

> corporate risk management functions and committees that provide oversight and monitoring

> risk mitigation activities, such as hedging, insurance risk management, business continuity planning, information technology recovery planning, and anti-fraud and anti-money laundering programs

> quality reviews and audits to ensure that BDC is using appropriate and sound risk management practices

> enterprise-wide stress tests on significant risks and portfolios to determine the appropriate level of capital necessary to withstand a sustained economic downturn and continue to fulfill BDC mandate

Major risk categories

COVID-19 risk
The COVID-19 pandemic has caused extreme hardship for many small and medium-sized businesses and cast a dark cloud over the economic outlook.

In response, BDC is participating in the federal government's Business Credit Availability Program and providing other special support for entrepreneurs that is complementary to private sector activities. This support includes enhanced working capital loans, greater repayment flexibility, lower interest rates and additional venture capital investments. The shareholder has ensured BDC will have adequate capital to provide the necessary financial support to entrepreneurs.

Due to the unprecedented economic volatility arising from COVID-19, our core portfolio is operating within a heightened risk profile but remains with its risk appetite. However, certain elements of the Business Credit Availability Program (BCAP) portfolio operate outside of our Risk Appetite Statement. Concretely, this means we are accepting a higher level of credit and operational risk. Nevertheless, we remain dedicated to maintaining the highest standards of good governance, due diligence, internal risk controls and professional judgement in carrying out our activities in this period.

Strategic risk
The risk that BDC will fail to fulfill its mandate and thus put at risk our sustainability and/or existence due to the choice of sub-optimal or ineffective strategy, ineffective strategy execution, inaccurate knowledge of the market or lack of responsiveness to changes in the external environment.

Managing strategic risk
The Senior Management Committee, which includes the CEO and leaders from the business and corporate functions, establishes BDC's strategic direction, sets corporate objectives, defines success measures, and monitors operations and performance.

BDC has a rigorous process to update its corporate strategy annually. The strategy is then approved by senior management, the board and the Government of Canada. Regular strategic reviews and risk management programs ensure alignment with the Bank's risk appetite.

BDC ensures we operate with an appropriate level of capital in accordance with the nature and level of risk taken. The internal capital adequacy assessment process evaluates capital adequacy on both a regulatory and an economic capital basis and is used to establish capital thresholds in line with the risk appetite statement. BDC allocates capital among business units based on needs and assessed risks in order to support new and existing corporate activities.

BDC also conducts stress tests on our capital levels to assess the impact of different adverse scenarios to ensure we have sufficient capital to withstand unfavourable economic conditions. BDC's stress-testing framework seeks to ensure we are adequately capitalized, given the risks we take in line with BDC's risk appetite.

Please refer to Note 23—*Capital management* to the Consolidated Financial Statements for additional information on BDC's capital management and adequacy.

Financial risks
BDC has identified three major categories of financial risks: credit risk, market risk and liquidity risk. Note 24—*Risk management* to the Consolidated Financial Statements details BDC's financial risk management policies and measurements.

Credit risk
The risk of loss if a counterparty in a transaction fails to meet contractual commitments or obligations.

Managing credit risk
All credit and investment decisions must comply with established policies, corporate directives, guidelines, business rules and risk assessment tools used to help make these decisions. Managing credit risk is the responsibility of several levels of employees—from those who deal directly with clients to authorizing officers. In the latter case, specific authorities are delegated to positions commensurate with their function and the level of credit knowledge and judgement that employees holding that position are required to possess.

Our adjudication process includes assigning a borrower rating that reflects our estimate of the probability of default (PD) over the life of a loan. PD estimates are determined using internal risk classifications and scoring systems that take into consideration quantitative and qualitative criteria. These criteria include an assessment of the borrower's financial strength, management quality, financial flexibility and competitive strength. A score from a quantitative model can be modified in some cases on the basis of expert judgement, as prescribed by our credit policies. Our internal risk classifications are also used for portfolio risk management, risk limit setting, product pricing and the determination of economic capital.

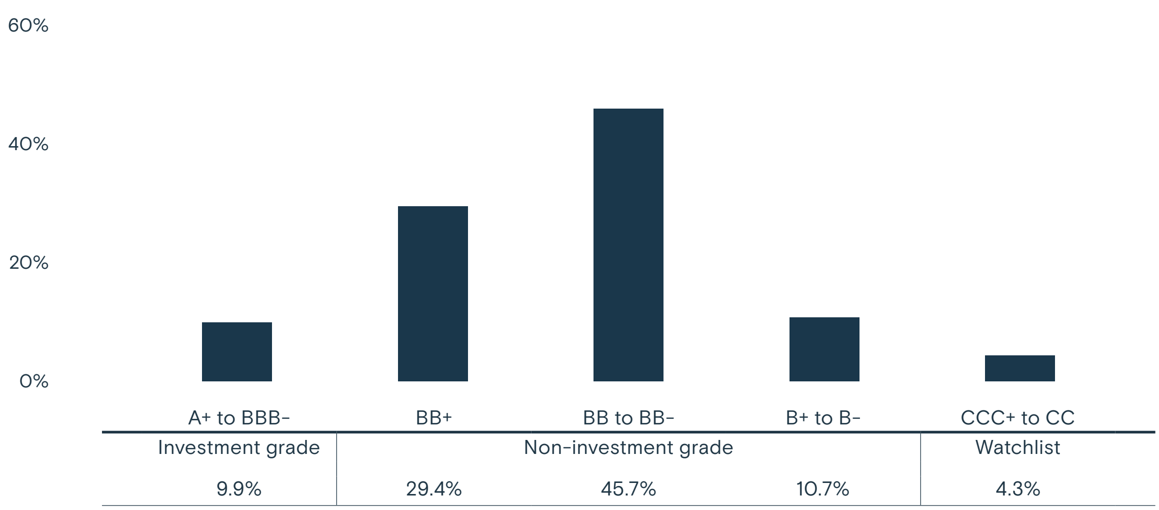
The table below matches our internal ratings to the ratings used by external ratings agencies.

While BDC follows leading risk management practices, we generally assume more risk than a typical financial institution, due to our mandate and corresponding risk appetite. As a result, a large portion of BDC's portfolio is non-investment grade. Please refer to Note 10—*Loans* to the Consolidated Financial Statements for further information on loans outstanding, by grade equivalent.

BDC performing loans portfolio credit risk exposure

BDC rating	Grade	S&P equivalent	F2020 - March 31, 2020
0.5 to 1.0	Investment grade	A+ to BBB-	10%
1.5 - 2.0		BB+	29%
2.5 - 4.0	Non Investment grade	BB to BB-	46%
4.5 - 5.0		B+ to B-	11%
5.5	Watchlist	CCC+ to CC	4%
			100%

BDC loans performing portfolio, classified by credit risk exposure
as at March 31, 2020 (as a percentage of gross performing financing portfolio)



The most common method used to mitigate credit risk at the transaction level is to obtain quality collateral from borrowers. While collateral cannot replace a rigorous assessment of a borrower's ability to meet his or her obligations to us, it is an important complement. Collateral is not required in all cases; it depends on the type of loan granted. Please refer to Note 10—*Loans* to the Consolidated Financial Statements for further information about principal collateral pledged as security and our level of security coverage.

In addition to managing credit risk on an individual, transactional basis, BDC manages it on a portfolio basis. Through monitoring, analysis and risk reports, portfolio risk management ensures that the overall risk in the portfolio is well-diversified and consistent with BDC fulfilling our mandate while achieving our financial objectives, in line with our risk appetite.

Market risk
This is the risk of financial loss that may arise from developments in the marketplace or from our inability to forecast poor economic conditions quickly enough to mitigate losses in our portfolio. It represents the market value fluctuations of BDC's assets and liabilities arising from volatility in interest rates, equity markets and foreign currency levels. For BDC, market risk also arises from volatile and unpredictable market events affecting the value of investments of Venture Capital, the venture capital incentive programs and the Cleantech Practice.

Market non-trading risk is the risk of loss in financial instruments, the consolidated statements of financial position or in net income, or the risk in non-trading activities, such as asset liability management or hedging due to market factors, including fluctuations in interest rates, foreign exchange rates, or the price of equities or commodities.

Managing market risk
BDC applies a sound asset/liability framework in our funding strategy and uses derivatives to manage and mitigate exposure to fluctuations in equity markets, foreign currencies and interest rates.

Liquidity risk
This is the risk of being unable to obtain or convert BDC's assets into cash for the purpose of servicing and refinancing debt for the timely disbursement of committed loans and/or for the payment of operating expenses and dividends.

Managing liquidity risk
To avoid any business disruptions, BDC ensures that the minimum required level of cash is invested in highly liquid, high-quality securities that can be sold to a wide range of counterparties in active secondary markets without incurring a substantial loss.

Operational risk
Operational risk is the risk of loss from inadequate or failed internal processes, people and systems, or from events beyond BDC's control, such as natural disasters. It is pervasive in all business activities, including our practices for managing other risks such as credit, market and liquidity risk.

Managing Operational Risk
Operational risk is inherent in all our activities and operations at BDC. As such, BDC strives to identify, analyze, mitigate and monitor these risks in line with our enterprise risk management framework and relevant corporate directives. These policies and corporate directives govern the way BDC manages our people, processes and internal/external environment.

BDC has implemented the following mitigation practices for managing key operational risks.

- Business continuity management and incident management: BDC has developed tools to manage incidents and minimize interruptions to business operations as set out in our Master Business Continuity Plan as well as individual Business Continuity Plans for each region, business centre area and business unit.
- Insurance: BDC protects our financial interests through the purchase of insurance against unfavourable insurable events.

> Human resources management: BDC's long-term success depends largely on our capacity to attract, retain and develop the right talent, and to create a healthy, professional and collaborative environment that encourages engaged employees to fully contribute to BDC's mission of helping Canadian entrepreneurs succeed. We achieve this through:
  - BDC's Code of Conduct, Ethics and Core Values
  - human capital strategies and plans, including effective hiring practices, organizational design and compensation
  - learning and development tools to foster engagement and prepare employees to achieve their full potential

> Procurement and contracting processes: BDC follows sound principles and practices in the procurement and contracting of goods and services and the management of external suppliers. BDC maintains a broad range of programs and activities to mitigate third-party risk. These include an effective governance framework and transparent and disciplined processes for performing due diligence and risk assessment oversight throughout our relationships with third parties.

> Project management: The Enterprise Project Management Office (EPMO) provides project management leadership, expertise and experience to the entire organization. The EPMO also provides executive management with an overall strategic view of all BDC projects for prioritization and effective decision-making. This ensures projects are aligned with corporate objectives and the organizational capacity to deliver them.

> Fraud management: BDC has an anti-fraud program that is consistent with current legislation and industry practices.

> Model risk management: BDC manages and mitigates model risk throughout the lifecycle by reviewing, validating and approving new and existing models.

Technology risk
This is the risk of loss arising from disruption of business or system failures.

Technology risks are present in all daily operations at BDC. As such, the identification, analysis, monitoring and mitigation of these risks are included in all policies and corporate directives. These policies and corporate directives govern the way BDC manages systems and infrastructure, cyber security, information security and data integrity.

Managing technology risk
BDC strives to ensure the protection of our clients and internal data.

Risk mitigation efforts include system and network controls, fostering broad employee awareness of threats through training and anti-phishing campaigns, and ongoing independent testing of infrastructure and key systems/applications stability. In addition, BDC has established a training program to enhance incident response management by BDC's IT cybersecurity/operations specialists.

BDC uses tools to manage technology incidents and minimize interruptions to business operations through our IT disaster recovery plan and IT incident management processes.

Legal and regulatory risk
This is the risk associated with a failure to meet BDC's obligations as required by the laws, rules, regulations and prescribed practices in any jurisdiction within which we operate.

Managing legal and regulatory risk
BDC's Legal Affairs and Corporate Secretariat ensures employees and management comply with legal and regulatory requirements through the regulatory compliance framework. In addition, Legal Affairs is responsible for managing all litigation involving BDC. It provides the Audit and Conduct Committee with the information it needs to ensure compliance with laws and regulations, and oversees management of legal and regulatory risks.

Reputational risk
This is the risk that stakeholder perceptions regarding BDC's mandate, practices, actions or inaction will, or may, cause damage to our reputation and have an impact on our ability to fulfill our mandate and conduct our business.

BDC must meet Canadians' expectations in various ways, including the following:

> meet the shareholder's expectation that BDC will support entrepreneurship
> carry out our mandate effectively
> meet legal and broadly held ethical standards
> refuse to support clients who fail to meet societal expectations of responsible behaviour
> do business in an environmentally responsible manner

Managing reputational risk
Complying with BDC's risk management framework principles is the cornerstone of managing reputational risk. Reputational risk management is part of our corporate risk policies and corporate directives and is embedded in all elements of our business activities.

BDC has monitoring tools and processes in place to track topics of interest in social media and media.

BDC considers reputational risk when assessing potential loans or investments. We screen potential clients and do due diligence on potential transactions. BDC has well-established procedures to determine whether a client is involved in money laundering or terrorist activities. We also ensure he or she meets requirements related to transparency and disclosure, environmental performance, ethics and credit eligibility.

Climate Risk
Risks arising from climate change for Canada, BDC and its clients are no longer emerging; they are an operational reality.

The changing climate has brought physical risks, such as floods, storms, heat and drought. It is also creating marketplace transition risks as governments, entrepreneurs, consumers and investors adapt to a low carbon, climate resilient economy. Many Canadian entrepreneurs—including BDC clients and partners—are directly or indirectly vulnerable to physical and/or transition risks related to climate change.

We are starting to see structural adjustments in the global economy, including, for example, climate-related standards in supply chains. We believe climate change risk management will become business-as-usual, and embedded in everyday decisions, products and services.

In the financial sector, this transition has begun. In line with this trend, BDC is progressively shifting its management of climate risk to accommodate the necessary operational, credit, strategic, regulatory and legal considerations.

Managing climate risk
BDC's operational strategy to address climate risk is aligned with the recommendations of the Financial Stability Board's Task Force on Climate Related Financial Disclosures (TCFD). Like its peers, BDC will use the roadmap created by the TCFD's core principles and guidelines for governance, strategy, risk management, and metrics and targets. Also, BDC will report progress to its Board of Directors, which oversees senior management's implementation of these new policies and practices.

.

5 Accounting and Control Matters

Significant accounting policies

BDC's significant accounting policies are described in Note 3—*Significant accounting policies* to the Consolidated Financial Statements. Certain of these policies, as well as estimates and assumptions made in applying such policies, are considered critical, as they require significant judgements by management. BDC has established control procedures, including formal representations and certification by senior officers, to ensure that accounting policies, estimates and assumptions are reviewed and applied consistently from period to period.

Future changes in accounting policies

Conceptual Framework

On March 29, 2018, the IASB issued the revised Conceptual Framework for Financial Reporting (Framework) replacing the previous version issued in 2010. The Framework is effective immediately for the IASB and IFRS Interpretations Committee, but has an effective date of January 1, 2020, which will be April 1, 2020 for BDC, with early adoption permitted. The Framework includes some new concepts, provides revised definitions and recognition criterias for assets and liabilities and clarifies some important concepts. The adoption of the revised Conceptual Framework will not have a material impact on BDC`s Consolidated Financial Statements.

Judgements, estimates and assumptions

BDC's significant accounting judgements, estimates and assumptions are described in Note 6—*Significant accounting judgements, estimates and assumptions* to the Consolidated Financial Statements. Critical accounting estimates that have the most significant effect on the amounts recognized in the Consolidated Financial Statements include those related to the allowance for expected credit losses, fair value of financial instruments, impairment of assets at fair value through other comprehensive income, consolidation, defined benefit pension plans and other post-employment benefits.

Controls and procedures

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as well as appropriate disclosure controls and procedures.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. However, because of its inherent limitations, internal control over financial reporting can only provide reasonable assurance and may not prevent or detect misstatements.

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management on a timely basis so that BDC can make appropriate decisions about public disclosure.

BDC has a certification regime to evaluate the design and effectiveness of our internal control over financial reporting and our disclosure controls and procedures. This certification regime is based on the *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

BDC has reached the following conclusion regarding the design and effectiveness of internal control over financial reporting:

As of March 31, 2020, certifying officers evaluated the design and effectiveness of internal control over financial reporting. Based on the results of the evaluation, they concluded that internal control over financial reporting is adequately designed and operates effectively to provide reasonable assurance about the reliability of financial reporting and of financial statements prepared in accordance with IFRS.

BDC has reached the following conclusion regarding the design and effectiveness of disclosure controls and procedures:

As of March 31, 2020, certifying officers evaluated the design and effectiveness of disclosure controls and procedures. Based on the results of the evaluation, they concluded that disclosure controls and procedures are adequately designed and operate effectively to provide reasonable assurance that material information disclosed is recorded, processed, summarized and presented within the requested timeframe, and that it is communicated to management on a timely basis for decision-making purposes.

Consolidated Financial Statements

Management's Responsibility for Financial Information

The Consolidated Financial Statements of the Business Development Bank of Canada (BDC) were prepared and presented by management in accordance with International Financial Reporting Standards. The information contained therein normally includes amounts requiring estimations that have been made based upon informed judgement as to the expected results of current transactions and events. The financial information presented elsewhere in this annual report is consistent with the Consolidated Financial Statements.

In discharging its responsibility for the integrity, fairness and quality of the Consolidated Financial Statements and for the accounting systems from which they are derived, management maintains a system of internal control designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. BDC has a certification regime to evaluate the design and effectiveness of its internal control over financial reporting and its disclosure controls and procedures. This certification regime is based on the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Refer to the Management's Discussion and Analysis section of the annual report for additional information (p. 49).

The system of internal controls is supported by internal audit staff members who conduct periodic reviews of different aspects of BDC's operations. In addition, the Chief Audit Executive, and the External Auditors have full and free access to the Audit and Conduct Committee of the Board of Directors, which is responsible for overseeing and reviewing management's internal control and reporting responsibilities. The Board of Directors, through the Audit and Conduct Committee, which is entirely composed of independent directors, is responsible for reviewing and approving the audited annual Consolidated Financial Statements.

BDC's independent auditors, Deloitte LLP, Chartered Professional Accountants, and the Auditor General of Canada have audited BDC's Consolidated Financial Statements and their report indicates the scope of their audit and their opinion on the Consolidated Financial Statements.

Michael Denham
President and Chief Executive Officer

Montreal, Canada
June 10, 2020

Stefano Lucarelli, CPA, CA
Executive Vice President
and Chief Financial Officer

Office of the Auditor General of Canada | Bureau du vérificateur général du Canada

Deloitte.

INDEPENDENT AUDITORS' REPORT

To the Minister of International Trade

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Business Development Bank of Canada (the BDC), which comprise the consolidated statement of financial position as at 31 March 2020, and the consolidated statement of income (loss), consolidated statement of comprehensive income (loss), consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the BDC as at 31 March 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the BDC in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the annual report prior to the date of the auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the BDC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the BDC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the BDC's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the BDC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the BDC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the BDC to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the consolidated financial statements, we have audited transactions of the Business Development Bank of Canada and its wholly-owned subsidiary coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act*, the charter and by-laws of the Business Development Bank of Canada and its wholly-owned subsidiary, and the directives issued pursuant to section 89 of the *Financial Administration Act*.

In our opinion, the transactions of the Business Development Bank of Canada and its wholly-owned subsidiary that came to our notice during the audit of the consolidated financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied, except for the change in the method of accounting for leases as explained in Note 4 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Business Development Bank of Canada and its wholly-owned subsidiary's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Business Development Bank of Canada and its wholly-owned subsidiary to comply with the specified authorities.

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the consolidated financial statements are in compliance with the specified authorities referred to above.

Tina Swiderski, CPA auditor, CA
Principal
for the Auditor General of Canada

Montréal, Canada
10 June 2020

Deloitte LLP[1]

[1] CPA auditor, CA, public accountancy permit No. A116129

Montréal, Canada
10 June 2020

Consolidated Statement of Financial Position

(in thousands of Canadian dollars)

	Note	**March 31, 2020**	March 31, 2019
ASSETS			
Cash and cash equivalents	8	**1,821,397**	703,980
Derivative assets	9	**12,356**	10,342
Loans			
Loans, gross carrying amount	10	**28,472,261**	26,545,464
Less: allowance for expected credit losses	10	**(1,199,173)**	(629,242)
Loans, net of allowance for expected credit losses		**27,273,088**	25,916,222
Investments			
Asset-backed securities	11	**777,838**	700,343
Subordinate financing investments	12	**1,240,588**	1,152,182
Venture capital investments	13	**1,721,136**	2,027,778
Total investments		**3,739,562**	3,880,303
Property and equipment	14	**67,704**	60,030
Intangible assets	15	**41,525**	38,935
Right-of-use assets	16	**127,523**	–
Net defined benefit asset	20	**41,781**	20,483
Other assets	17	**28,422**	26,159
Total assets		**33,153,358**	30,656,454
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities	18	**158,292**	141,412
Derivative liabilities	9	**16,125**	5,940
Borrowings	19		
Short-term notes		**19,362,224**	20,951,914
Long-term notes		**4,207,066**	1,442,650
Total borrowings		**23,569,290**	22,394,564
Lease liabilities	16		
Short-term lease liabilities		**12,063**	–
Long-term lease liabilities		**125,138**	–
Total lease liabilities		**137,201**	–
Net defined benefit liability	20	**246,443**	282,206
Other liabilities	21	**123,208**	76,572
Total liabilities		**24,250,559**	22,900,694
Equity			
Share capital	22	**4,008,900**	2,602,900
Contributed surplus		**27,778**	27,778
Retained earnings		**4,846,219**	5,076,074
Accumulated other comprehensive income		**8,763**	7,373
Equity attributable to BDC's shareholder		**8,891,660**	7,714,125
Non-controlling interests		**11,139**	41,635
Total equity		**8,902,799**	7,755,760
Total liabilities and equity		**33,153,358**	30,656,454

Guarantees and contingent liabilities (Note 27)

Commitments (Notes 10, 11, 12, 13, 14, 15 and 16)

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

Brian O'Neil
Director
Chairperson, Audit and Conduct Committee

Michael Denham
Director
President and Chief Executive Officer

Consolidated Statement of Income (Loss)

For the year ended March 31 (in thousands of Canadian dollars)

	2020	2019
Interest income	**1,763,833**	1,606,869
Interest expense	**366,521**	289,493
Net interest income	**1,397,312**	1,317,376
Net realized gains (losses) on investments	**248,073**	37,181
Revenue from Advisory Services	**29,236**	25,072
Fee and other income	**72,109**	43,314
Net revenue	**1,746,730**	1,422,943
Provision for expected credit losses	**(772,511)**	(179,915)
Net change in unrealized appreciation (depreciation) of investments	**(541,225)**	225,668
Net foreign exchange gains (losses)	**36,102**	17,080
Net gains (losses) on other financial instruments	**216**	1,175
Income before operating and administrative expenses	**469,312**	1,486,951
Salaries and benefits	**452,431**	410,203
Premises and equipment	**45,608**	44,008
Other expenses	**189,272**	147,138
Operating and administrative expenses	**687,311**	601,349
Net income (loss)	**(217,999)**	885,602
Net income (loss) attributable to:		
BDC's shareholder	**(193,018)**	878,482
Non-controlling interests	**(24,981)**	7,120
Net income (loss)	**(217,999)**	885,602

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

Note 25 provides additional information on the Consolidated Statement of Income (Loss), including interest income on financial assets measured at amortized cost and at fair value through other comprehensive income calculated using effective interest rate method.

Note 26 provides segmented information.

Consolidated Statement of Comprehensive Income (Loss)

For the year ended March 31 (in thousands of Canadian dollars)

	Note	**2020**	2019
Net income (loss)		**(217,999)**	885,602
Other comprehensive income (loss)			
Items that may be reclassified subsequently to net income			
Net change in unrealized gains (losses) on fair value through other comprehensive income assets		**2,515**	7,027
Net unrealized gains (losses) on cash flow hedges		**–**	2,474
Reclassification to net income of losses (gains) on cash flow hedges		**(1,125)**	(1,137)
Net change in unrealized gains (losses) on cash flow hedges		**(1,125)**	1,337
Total items that may be reclassified subsequently to net income		**1,390**	8,364
Items that will not be reclassified to net income			
Remeasurements of net defined benefit asset or liability	20	**91,563**	(76,243)
Other comprehensive income (loss)		**92,953**	(67,879)
Total comprehensive income (loss)		**(125,046)**	817,723
Total comprehensive income (loss) attributable to:			
BDC's shareholder		**(100,065)**	810,603
Non-controlling interests		**(24,981)**	7,120
Total comprehensive income (loss)		**(125,046)**	817,723

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

Consolidated Statement of Changes in Equity

For the year ended March 31 (in thousands of Canadian dollars)

					Accumulated other comprehensive income (loss)					
	Note	Share capital	Contributed surplus	Retained earnings	FVOCI assets [1]	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at March 31, 2019		**2,602,900**	**27,778**	**5,076,074**	**2,751**	**4,622**	**7,373**	**7,714,125**	**41,635**	**7,755,760**
Total comprehensive income (loss)										
Net loss				**(193,018)**				**(193,018)**	**(24,981)**	**(217,999)**
Other comprehensive income (loss)										
Net change in unrealized gains (losses) on fair value through other comprehensive income assets					**2,515**		**2,515**	**2,515**		**2,515**
Net change in unrealized gains (losses) on cash flow hedges						**(1,125)**	**(1,125)**	**(1,125)**		**(1,125)**
Remeasurements of net defined benefit asset or liability	20			**91,563**				**91,563**		**91,563**
Other comprehensive income (loss)		**–**	**–**	**91,563**	**2,515**	**(1,125)**	**1,390**	**92,953**	**–**	**92,953**
Total comprehensive income (loss)		**–**	**–**	**(101,455)**	**2,515**	**(1,125)**	**1,390**	**(100,065)**	**(24,981)**	**(125,046)**
Dividends on common shares	22			**(128,400)**				**(128,400)**		**(128,400)**
Distributions to non-controlling interests									**(5,554)**	**(5,554)**
Capital injections from non-controlling interests									**39**	**39**
Issuance of common shares	22	**1,406,000**						**1,406,000**		**1,406,000**
Transactions with owner, recorded directly in equity		**1,406,000**	**–**	**(128,400)**	**–**	**–**	**–**	**1,277,600**	**(5,515)**	**1,272,085**
Balance as at March 31, 2020		**4,008,900**	**27,778**	**4,846,219**	**5,266**	**3,497**	**8,763**	**8,891,660**	**11,139**	**8,902,799**

(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 (continued)

For the year ended March 31 (in thousands of Canadian dollars)

					Accumulated other comprehensive income (loss)					
	Note	Share capital	Contributed surplus	Retained earnings	FVOCI assets[1]	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at March 31, 2018		2,477,900	27,778	4,211,785	(4,276)	3,285	(991)	6,716,472	42,731	6,759,203
Impact of adopting IFRS 9 on April 1, 2018				131,750				131,750		131,750
Opening balance as at April 1, 2018		2,477,900	27,778	4,343,535	(4,276)	3,285	(991)	6,848,222	42,731	6,890,953
Total comprehensive income										
Net income				878,482				878,482	7,120	885,602
Other comprehensive income (loss)										
Net change in unrealized gains (losses) on available-for-sale assets					7,027		7,027	7,027		7,027
Net change in unrealized gains (losses) on cash flow hedges						1,337	1,337	1,337		1,337
Remeasurements of net defined benefit asset or liability	20			(76,243)				(76,243)		(76,243)
Other comprehensive income (loss)		–	–	(76,243)	7,027	1,337	8,364	(67,879)	–	(67,879)
Total comprehensive income		–	–	802,239	7,027	1,337	8,364	810,603	7,120	817,723
Dividends on common shares	22			(69,700)				(69,700)		(69,700)
Distributions to non-controlling interests									(11,125)	(11,125)
Capital injections from non-controlling interests									2,909	2,909
Issuance of common shares	22	125,000						125,000		125,000
Transactions with owner, recorded directly in equity		125,000	–	(69,700)	–	–	–	55,300	(8,216)	47,084
Balance as at March 31, 2019		2,602,900	27,778	5,076,074	2,751	4,622	7,373	7,714,125	41,635	7,755,760

(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

For the year ended March 31 (in thousands of Canadian dollars)

	Note	**2020**	2019
Operating activities			
Net income (loss)		**(217,999)**	885,602
Adjustments to determine net cash flows			
Interest income		**(1,763,833)**	(1,606,869)
Interest expense		**364,537**	289,493
Interest on lease liabilities		**1,984**	–
Net realized losses (gains) on investments		**(248,073)**	(37,181)
Provision for expected credit losses		**772,511**	179,915
Net change in unrealized depreciation (appreciation) of investments		**541,225**	(225,668)
Net unrealized foreign exchange losses (gains)		**(56,946)**	(33,790)
Net unrealized losses (gains) on other financial instruments		**909**	936
Defined benefits funding below (in excess of) amounts expensed	20	**34,502**	25,558
Depreciation of property and equipment, and amortization of intangible assets	14, 15	**19,520**	19,106
Depreciation of right-of-use assets	16	**14,164**	–
Loss (gain) on derecognition of property and equipment	14	**154**	1,639
Impairment of intangible assets	15	**1,671**	–
Other		**(8,943)**	(11,467)
Interest expense paid		**(364,269)**	(277,142)
Interest income received		**1,733,400**	1,561,747
Changes in operating assets and liabilities			
Net change in loans		**(2,028,899)**	(2,139,978)
Net change in accounts payable and accrued liabilities		**16,880**	13,959
Net change in other assets and other liabilities		**6,875**	2,928
Net cash flows provided (used) by operating activities		**(1,180,630)**	(1,351,212)
Investing activities			
Disbursements for asset-backed securities		**(407,360)**	(498,573)
Repayments and proceeds on sale of asset-backed securities		**332,410**	278,745
Disbursements for subordinate financing investments		**(537,193)**	(394,032)
Repayments of subordinate financing investments		**339,180**	293,387
Disbursements for venture capital investments		**(270,438)**	(206,186)
Proceeds on sale of venture capital investments		**441,363**	127,104
Acquisition of property and equipment	14	**(17,860)**	(19,498)
Acquisition of intangible assets	15	**(13,749)**	(10,709)
Net cash flows provided (used) by investing activities		**(133,647)**	(429,762)
Financing activities			
Net change in short-term notes	19	**(1,580,300)**	465,000
Issue of long-term notes	19	**2,755,000**	1,300,000
Distributions to non-controlling interests		**(5,554)**	(11,125)
Capital injections from non-controlling interests		**39**	2,909
Issuance of common shares	22	**1,406,000**	125,000
Dividends paid on common shares	22	**(128,400)**	(69,700)
Payment of lease liabilities		**(15,091)**	–
Net cash flows provided (used) by financing activities		**2,431,694**	1,812,084
Net increase (decrease) in cash and cash equivalents		**1,117,417**	31,110
Cash and cash equivalents at beginning of year		**703,980**	672,870
Cash and cash equivalents at end of year		**1,821,397**	703,980

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

Notes to the Consolidated Financial Statements

For the year ended March 31, 2020 (in thousands of Canadian dollars)

1.

Act of incorporation, objectives and operations of the Corporation

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 Corporation's head office is located at 5 Place Ville Marie, Suite 100, Montreal, Quebec, 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. To finance its objectives, BDC borrows funds from Her Majesty the Queen in Right of Canada acting through the Minister of Finance. Prior to April 21, 2008, BDC issued debt instruments, which were secured by the Government of Canada. The *Business Development Bank of Canada Act* (BDC Act) also allows the use of hybrid capital instruments to provide the capital required for its operations. Her Majesty the Queen in Right of Canada would not be liable for payment of amounts owing under such capital instruments, none of which were outstanding as at March 31, 2020, and March 31, 2019.

BDC is for all purposes an agent of Her Majesty the Queen in Right of Canada. BDC is also named in Part I of Schedule III to the *Financial Administration Act* (FAA) and is accountable for its affairs to Parliament through the Minister of Small Business, Export Promotion and International Trade. Pursuant to section 89 of the FAA, BDC, together with a number of other Crown corporations, has to comply with a directive issued in 2008 to ensure that Crown corporations give due consideration to the personal integrity of those they lend to or provide benefits to, in accordance with the government's policy to improve the accountability and integrity of federal institutions. In fiscal 2009, BDC completed the implementation of this directive and confirms that it has been met since then.

Pursuant to section 89 of the FAA, BDC received a directive in December 2014 from the Governor General in Council (P.C. 2014-1378) requesting that BDC review its current pension plan and ensure that it remains affordable, financially sustainable and consistent with the terms of the Public Service Pension Plan. These changes are intended to ensure that pension plans of Crown corporations provide a 50:50 current service cost-sharing ratio between employee and employer for pension contributions by December 31, 2017, as well as to raise the normal age of retirement to 65 years for employees hired on or after January 1, 2015. Consequently, to comply with the directive, BDC implemented modifications to its existing defined benefit pension plan effective January 1, 2015. Eligible employees hired before January 1, 2015, had a choice of three options: two options included some features of the old plan design and a third option offered a completely new benefit structure. Employees hired after December 31, 2014, are automatically enrolled in the third option. In addition, BDC gradually increased the employee's contribution level allowing to achieve a 50:50 current service cost sharing by December 31, 2017 and approved a funding policy with mechanisms to ensure BDC's cash contributions, for current service cost only, would not exceed members' required contributions, on a cumulative basis while complying with regulations. BDC completed the implementation of both elements of its strategy by December 31, 2017. As at December 31, 2019, BDC reached a level of employer contribution that, although not exactly 50:50, is not exceeding 50% of the current service cost, and is administering in accordance with regulations and its funding policy. BDC met with representatives from the Treasury Board Secretariat of Canada (TBS) in May 2019 and agreed to report annually over the next 5 years on its current service cost sharing ratio. This will enable TBS and BDC to monitor the situation and assess whether further actions are required at the end of the fiscal year 2025.

1. Act of incorporation, objectives and operations of the Corporation (continued)

Pursuant to section 89 of the FAA, BDC received a directive in July 2015 from the Governor General in Council (P.C. 2015-1109) requiring that BDC align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations. Consequently, BDC implemented modifications to its Business Expenses Policy and Corporate Directive and confirms that it complies with this directive since then. The Business Expenses Policy can be found on BDC's website.

2.

Basis of preparation

Statement of compliance

BDC has prepared its Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS). These Consolidated Financial Statements were approved for issue by the Board of Directors on June 10, 2020.

Basis of presentation and measurement

The Consolidated Financial Statements have been prepared on a historical cost basis, except for the following:

> financial assets and financial liabilities at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVOCI), and derivative financial instruments have been measured at fair value; and

> the net defined benefit asset or liability in respect of post-employment benefits has been recognized as the present value of the defined benefit obligation less the fair value of plan assets.

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

Basis of consolidation

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

The Consolidated Financial Statements of BDC comprise the financial statements of the parent entity and the consolidated financial statements of the subsidiaries referred to above as of March 31, 2020, and March 31, 2019. The financial statements of the subsidiaries are prepared using uniform accounting policies and valuation methods for similar transactions.

2. Basis of preparation (continued)

Subsidiaries

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

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

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

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

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

Go Capital L.P.

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

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

AlterInvest II Fund L.P.

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

Non-controlling interests

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

2. Basis of preparation (continued)

Associates

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

3.

Significant accounting policies

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all periods presented in these Consolidated Financial Statements, except for the policies related to the adoption of IFRS 16, *Leases* effective on April 1, 2019, and have been applied consistently by all entities consolidated by BDC.

Financial instruments

Recognition, derecognition and measurement of financial instruments
Financial assets and financial liabilities are recognized when BDC becomes party to the contractual provisions of the financial instrument.

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

Financial instruments are recognized and derecognized using settlement date accounting.

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

Classification of financial instruments
Financial assets
On initial recognition, a financial asset is classified as subsequently measured at:

> amortized cost;

> fair value through profit or loss (FVTPL); or

> fair value through other comprehensive income (FVOCI).

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

> Financial assets held solely to collect contractual cash flows;

> Financial assets held both to collect contractual cash flows and sell the assets;

> Financial assets that are managed on a fair value basis.

3. Significant accounting policies (continued)

Financial instruments (continued)

Classification of financial instruments

Financial assets (continued)

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

> the investment strategy for holding or selling the assets in the portfolio and the risks that affect the performance of the business model;

> the reports provided to BDC's management and key indicators used to assess the performance of the portfolio;

> the portfolios' managers compensation (i.e., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected);

> the frequency, volume and timing of sales in prior periods, the reasons for such sales and the expectations about future sales activity.

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

> the asset is held within a business model whose objective is to hold assets to collect contractual cash flows;

> the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

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

> the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;

> the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

All other financial assets are classified as measured at FVTPL.

On initial recognition, BDC may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI, to be measured as at FVTPL.

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

> contingent events that change the amount and timing of cash flows;

> leveraged features;

> prepayment and extension terms;

> terms that limit BDC's claim to cash flows from specified assets;

> features that modify consideration of the time value of money.

3. Significant accounting policies (continued)

Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Subsequent measurement of financial instruments (continued)

Cash flow hedges

BDC elected to de-designate the hedging instruments effective on the last day of fiscal 2018. The amounts recognized in other comprehensive income (loss) at March 31, 2018 will be recycled to the Consolidated Statement of Income (Loss) in the periods where the hedged items affect net income. Derivatives held for risk management are measured at fair value through profit or loss in the Consolidated Statement of Income (Loss) starting April 1, 2018.

Impairment

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

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

The allowance for ECL is maintained at a level considered adequate to absorb the credit losses expected in the portfolio at the financial reporting date based on a forward-looking model and is established at the individual level.

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

i. Stage 1—12-month ECL: The loss allowance is measured at an amount equal to 12-month expected credit losses if there is no significant increase in credit-risk since initial recognition;

ii. Stage 2—Lifetime ECL: The loss allowance is measured at an amount equal to the lifetime expected credit losses if there is a significant increase in credit risk since initial recognition and the loan is not considered credit-impaired;

iii. Stage 3—Lifetime ECL: The loss allowance is measured at an amount equal to the lifetime expected credit losses if the loan is considered credit-impaired.

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

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Impairment (continued)

Definition of default

Per BDC's credit risk management policy, a financial asset is considered impaired and moves to Stage 3 when it is in default of payments for three consecutive months, or when adverse events have occurred that are judged to be severe and likely unresolvable which indicate that BDC can no longer expect to collect the expected future cash flows in full.

Write-off policy

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

Major types of financial instruments

Cash equivalents

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

Cash equivalents are monitored daily to determine the counterparty credit risk using external credit rating agencies. As at March 31, 2020, and March 31, 2019, cash equivalents are considered to have a low credit risk based on the counterparties' external credit ratings of A to AA. The low credit risk simplification is used and the impairment on cash equivalents is calculated based on 12-month expected credit losses.

Loans

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

Allowance for expected credit losses

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

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

Refer to Note 6—*Significant accounting judgements, estimates and assumptions* for more information regarding the criteria used to determine the amount of the allowance.

3. Significant accounting policies (continued)

Financial instruments (continued)

Major types of financial instruments (continued)

Asset-backed securities

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

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

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

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

ABS credit risk is monitored quarterly using internal credit risk rating methodology. As at March 31, 2020, and March 31, 2019, all of the investment-grade senior notes are considered low credit risk, and therefore the low credit risk simplification is used and the impairment is calculated based on 12-month expected credit losses.

Refer to Note 6—*Significant accounting judgements, estimates and assumptions* for more information regarding the criteria used to determine whether an impairment has occurred.

Subordinate financing and venture capital investments

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

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Major types of financial instruments (continued)

Derivatives

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

All BDC derivatives are over-the-counter and are mainly composed of swaps and foreign exchange forwards. The fair value of swaps is determined using pricing models that take into account current market and contractual prices of the underlying instrument, as well as time value, the yield curve, or volatility factors underlying the position and embedded options. The fair value of foreign exchange forwards is calculated by discounting the notional amount using the yield curves of the respective currencies. Inputs to both these calculations are market-observable data sourced from leading inter-dealer brokers, together with industry-standard valuation models for estimating fair value.

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

As at March 31, 2020, and March 31, 2019, BDC had no embedded derivatives that needed to be separated from a host contract because the entire instrument was designated at fair value through profit or loss.

Borrowings

Short-term notes are measured at amortized cost.

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

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

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

3. Significant accounting policies (continued)

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

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

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

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

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

Revenue from Advisory Services

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

Property and equipment and intangible assets

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

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

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

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

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

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

3. Significant accounting policies (continued)

Property and equipment and intangible assets (continued)

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

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

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

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

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

Leases

Effective April 1, 2019, BDC has applied IFRS 16, *Leases* using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17, *Leases* and IFRIC 4, *Determining whether an arrangement contains a lease*. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately below if they are different from those under IFRS 16 and the impact of changes is disclosed in Note 4, *Adoption of IFRS 16, Leases*.

Policy applicable prior to adoption of IFRS 16 (before April 1, 2019)
For contracts entered into before April 1, 2019, BDC determined whether the arrangement was or contained a lease based on the assessment of whether:

> Fulfilment of the arrangement was dependent on the use of a specific asset or assets; and

> The arrangement had conveyed the right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:

- The purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- The purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- Facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were deferred and recognized as an integral part of the total lease expense, over the term of the lease.

3. Significant accounting policies (continued)

Leases (continued)

Policy applicable upon transition to IFRS 16 (April 1, 2019)
At inception of a contract, BDC assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, BDC assesses whether:

> the contract involves the use of an identified asset—this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

> BDC has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and

> BDC has the right to direct the use of the asset. BDC has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

This policy is applied to contracts entered into, or changed, on or after April 1, 2019.

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

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

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

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

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

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. BDC has not used this practical expedient.

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

3. Significant accounting policies (continued)

Net defined benefit asset or liability

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

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

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

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

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

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

3. Significant accounting policies (continued)

Equity attributable to BDC's shareholder

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

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

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

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies, all of which are monetary, are translated into Canadian dollars at exchange rates prevailing at the reporting date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars using the exchange rate at the date of each transaction.

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

Segmented information

BDC has the following operating segments, which are based on differences in products and services and government supported initiatives: Financing, Advisory Services, Growth & Transition Capital, Venture Capital, Venture Capital Incentive Programs and Cleantech Practice.

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

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

4.
Adoption of IFRS 16, *Leases*

Except for the changes below, BDC has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

BDC has applied IFRS 16 with a date of initial application of April 1, 2019. As a result, BDC has changed its accounting policy for lease contracts as detailed below. BDC has applied IFRS 16 using the modified retrospective approach.

Previously, BDC determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, BDC assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3—*Significant accounting policies*.

On transition to IFRS 16, BDC elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, BDC recognized a lease liability at the date of initial application only for leases previously classified as operating leases.

As a lessee, BDC previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to BDC. Under IFRS 16, BDC recognizes on the Consolidated Statement of Financial Position right-of-use assets and lease liabilities for all leases except for short-term leases or leases of low value items.

At transition, lease liabilities were measured at the present value of remaining fixed lease payments, discounted at BDC's incremental borrowing rate as at April 1, 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of deferred lease incentives.

At transition, BDC used the following practical expedient when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

> Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term or leases of low value items.

(in thousands of Canadian dollars)

4. Adoption of IFRS 16, *Leases* (continued)

Impacts on the Consolidated Financial Statements

On transition to IFRS 16, BDC recognized an additional $116.1 million of right-of-use assets and $123.1 million of lease liabilities and reclassified $7.0 million of deferred lease incentives that were recorded in Other Liabilities on the Consolidated Statement of Financial Position as at March 31, 2019, to the right-of-use asset. There was no impact on the opening balance of Retained earnings.

When measuring lease liabilities, BDC discounted lease payments using its incremental borrowing rate as at April 1, 2019. The weighted-average rate applied is 1.6%.

The following table reconciles the operating lease commitment as at March 31, 2019 to the opening lease liabilities balance as at April 1, 2019.

Operating lease commitment as at March 31, 2019	333,725
Leases not yet commenced to which BDC was committed	(30,916)
Amounts discounted using the incremental borrowing rate as at April 1, 2019	
Non-lease components	(96,251)
Variable lease payments	(31,489)
Non-refundable sales tax	(31,423)
Renewal options reasonably certain to be exercised	10,110
Impact of discounting above amounts	(30,668)
Lease liabilities as at April 1, 2019	123,088

5.
Future accounting changes

As at March 31, 2020, certain new standards, amendments and interpretations to existing standards had been published by the International Accounting Standards Board (IASB) but had not been adopted early by BDC. These standards include the Conceptual Framework described below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on BDC's Consolidated Financial Statements.

Conceptual Framework

On March 29, 2018, the IASB issued the revised Conceptual Framework for Financial Reporting (Framework) replacing the previous version issued in 2010. The Framework is effective immediately for the IASB and IFRS Interpretations Committee, but has an effective date of January 1, 2020, which will be April 1, 2020 for BDC. The Framework includes some new concepts, provides revised definitions and recognition criteria for assets and liabilities, and clarifies some important concepts. The adoption of the revised Conceptual Framework will not have a material impact on BDC`s Consolidated Financial Statements.

6.

Significant accounting judgements, estimates and assumptions

The preparation of the 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.

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

Allowance for expected credit losses

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

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

Impaired loans are considered in Stage 3. All other loans are either considered in Stage 1 or in Stage 2 if a significant increase in credit risk has occurred. If the increase in credit risk is no longer considered significant, loans will move back to Stage 1 and if the loans are no longer considered impaired, they will move back to Stage 1 or 2. Assumptions used to determine whether there is a significant increase in credit risk include a significant increase in the expected lifetime probability of default since origination, loans that are 30 days past due or on the watchlist.

Qualitative management overlays may also be applied, as required, to account for loans that have experienced a significant increase in risk. The ECL is calculated for each exposure, taking into account the financial instrument's forward-looking probability of default, loss given default and exposure at default. IFRS 9 requires current and expected economic conditions for multiple scenarios to be taken into account in determining whether there has been a significant increase in credit risk and in calculating the amount of expected losses. BDC considers three forward-looking scenarios which are probability weighted. The "base case" represents the most likely scenario under current and forward-looking economic conditions, whereas the "upside" and "downside" differ relative to the base case based on plausible economic conditions. Management judgement is required in the application of forward-looking information. In March 2020, the Coronavirus outbreak rapidly evolved resulting in an economic crisis. Since then, entrepreneurs have been experiencing challenges due to business closures, higher unemployment rates and social distancing. The recovery will depend on the speed at which the outbreak is controlled. At March 31, 2020, in light of the current uncertainty, significant judgement was made in the assessment of the impact of COVID-19 on the allowance for expected credit losses, particularly with regards to the macro-economic scenarios and the corresponding weights of these scenarios which contributed to an increase in loans classified in stage 2 and a higher level of allowance for expected credit losses. Actual results may differ materially from that recorded on March 31, 2020.

Changes in these assumptions, or the use of other reasonable judgements, can materially affect the allowance level. Refer to Note 10—*Loans*, for more information on the allowance for expected credit losses.

6. Significant accounting judgements, estimates and assumptions (continued)

Impairment of assets at fair value through other comprehensive income

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

Fair value of financial instruments

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

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

These judgements include considerations of inputs such as the discount rate, the expected rate of return by level of risk and the weighted forecast of cash flows. Changes to these inputs could affect the reported fair value of financial instruments. Refer to Note 3—*Significant accounting policies* for more information about the valuation techniques used for each type of financial instrument and to Note 7—*Classification and fair value of financial instruments* for additional information on fair value hierarchy levels.

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

Net defined benefit asset or liability

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

Refer to Note 20—*Net defined benefit asset or liability* for additional information about the key assumptions.

Consolidation

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

(in thousands of Canadian dollars)

7.
Classification and fair value of financial instruments

Classification of financial instruments

The following tables summarize the classification of BDC's financial instruments as at March 31, 2020, and March 31, 2019.

						March 31, 2020
		Measured at fair value				
		FVTPL(1)				
	Note	FVTPL	Designated as at FVTPL	FVOCI(2)	Measured at amortized cost	Total
Financial assets						
Cash and cash equivalents	8				**1,821,397**	**1,821,397**
Derivative assets	9	**12,356**				**12,356**
Loans, net of allowance for expected credit losses	10				**27,273,088**	**27,273,088**
Asset-backed securities	11	**9,857**		**767,981**		**777,838**
Subordinate financing investments	12	**1,240,588**				**1,240,588**
Venture capital investments	13	**1,721,136**				**1,721,136**
Other assets(3)	17				**11,026**	**11,026**
Total financial assets		**2,983,937**	**–**	**767,981**	**29,105,511**	**32,857,429**
Financial liabilities						
Accounts payable and accrued liabilities	18				**158,292**	**158,292**
Derivative liabilities	9	**16,125**				**16,125**
Short-term notes	19				**19,362,224**	**19,362,224**
Long-term notes	19		**135,734**		**4,071,332**	**4,207,066**
Other liabilities(3)	21				**115,739**	**115,739**
Total financial liabilities		**16,125**	**135,734**	**–**	**23,707,587**	**23,859,446**

(1) Fair value through profit or loss.
(2) Fair value through other comprehensive income.
(3) Certain items within the other assets and other liabilities categories on the Consolidated Statement of Financial Position are not considered to be financial instruments.

(in thousands of Canadian dollars)

7. Classification and fair value of financial instruments (continued)

Classification of financial instruments (continued)

March 31, 2019

	Note	Measured at fair value – FVTPL[(1)] – FVTPL	Measured at fair value – FVTPL[(1)] – Designated as at FVTPL	Measured at fair value – FVOCI[(2)]	Measured at amortized cost	Total
Financial assets						
Cash and cash equivalents	8				703,980	703,980
Derivative assets	9	10,342				10,342
Loans, net of allowance for expected credit losses	10				25,916,222	25,916,222
Asset-backed securities	11	9,543		690,800		700,343
Subordinate financing investments	12	1,152,182				1,152,182
Venture capital investments	13	2,027,778				2,027,778
Other assets[(3)]	17				9,862	9,862
Total financial assets		3,199,845	–	690,800	26,630,064	30,520,709
Financial liabilities						
Accounts payable and accrued liabilities	18				141,412	141,412
Derivative liabilities	9	5,940				5,940
Short-term notes	19				20,951,914	20,951,914
Long-term notes	19		136,028		1,306,622	1,442,650
Other liabilities[(3)]	21				62,555	62,555
Total financial liabilities		5,940	136,028	–	22,462,503	22,604,471

(1) Fair value through profit or loss.
(2) Fair value through other comprehensive income.
(3) Certain items within the other assets and other liabilities categories on the Consolidated Statement of Financial Position are not considered to be financial instruments.

Financial instruments carried at amortized cost

The following table provides a comparison of the carrying and fair values of BDC's financial instruments that are not carried at fair value in the Consolidated Financial Statements and for which the carrying values are not reasonable approximations of their fair value.

	March 31, 2020 Fair value hierarchy level	**March 31, 2020** Fair value	**March 31, 2020** Carrying value	March 31, 2019 Fair value hierarchy level	March 31, 2019 Fair value	March 31, 2019 Carrying value
Financial assets measured at amortized cost						
Loans	**2**	**27,619,725**	**27,273,088**	2	25,930,345	25,916,222
Financial liabilities measured at amortized cost						
Short-term notes	**1**	**19,364,561**	**19,362,224**	1	20,951,343	20,951,914
Long-term notes	**2**	**4,254,693**	**4,071,332**	2	1,343,276	1,306,622

7. Classification and fair value of financial instruments (continued)

Financial instruments carried at amortized cost (continued)

Loans measured at amortized cost
The net carrying value of performing floating-rate loans is a reasonable approximation of their fair value because the net carrying value reflects changes in interest rates since the loan was originated. For performing fixed-rate loans, fair value is determined using a discounted cash flow calculation that uses market interest rates prevailing at the end of the period charged for similar new loans with corresponding remaining terms.

For impaired loans, the fair value is equal to the net carrying value determined in accordance with the valuation methods described in Note 3—*Significant accounting policies*, under the heading Major types of financial instruments – Loans.

Short-term notes measured at amortized cost
The fair value of short-term notes classified at amortized cost is determined using a quoted market price.

Long-term notes measured at amortized cost
The fair value of long-term notes classified at amortized cost is determined using a discount cash flow calculation that uses market interest rates based on the remaining time to maturity.

Financial instruments measured at fair value

The assumptions and methods used to estimate the fair value of those financial assets and liabilities that are measured at fair value are disclosed in Note 3—*Significant accounting policies*.

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.

(in thousands of Canadian dollars)

7. Classification and fair value of financial instruments (continued)

Financial instruments measured at fair value (continued)

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

				March 31, 2020
	Fair value measurements using			Total
	Level 1	Level 2	Level 3	fair value
Assets				
Derivative assets		**12,356**		**12,356**
Asset-backed securities		**777,838**		**777,838**
Subordinate financing investments	**7,161**		**1,233,427**	**1,240,588**
Venture capital investments	**44,314**		**1,676,822**	**1,721,136**
	51,475	**790,194**	**2,910,249**	**3,751,918**
Liabilities				
Derivative liabilities		**16,125**		**16,125**
Long-term notes designated as at fair value through profit or loss		**135,734**		**135,734**
	–	**151,859**	**–**	**151,859**

				March 31, 2019
	Fair value measurements using			Total
	Level 1	Level 2	Level 3	fair value
Assets				
Derivative assets		10,342		10,342
Asset-backed securities		700,343		700,343
Subordinate financing investments	7,423		1,144,759	1,152,182
Venture capital investments	236,660		1,791,118	2,027,778
	244,083	710,685	2,935,877	3,890,645
Liabilities				
Derivative liabilities		5,940		5,940
Long-term notes designated as at fair value through profit or loss		136,028		136,028
	–	141,968	–	141,968

(in thousands of Canadian dollars)

7. Classification and fair value of financial instruments (continued)

Financial instruments measured at fair value (continued)

The following tables detail the changes in fair value measurement for financial instruments included in Level 3 of the fair value hierarchy. The procedures and valuation techniques used to determine the fair values of subordinate financing and venture capital investments included in Level 3 are described in Note 3—*Significant accounting policies*. These valuation techniques draw upon diverse unobservable inputs, none of which, with the exception of the risk-free interest rate, is individually significant enough to have a material impact on BDC's net income (loss) if it varied within reasonable possible ranges. For subordinate financing investments, the impact of a 1% variation in the risk-free rate would result in a gain or loss of $17.2 million in the current period and an equivalent change in retained earnings ($10.2. million in 2019).

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

			March 31, 2019
	Subordinate financing investments	Venture capital investments	Total
Fair value as at April 1, 2018	1,050,452	1,513,777	2,564,229
Net realized gains (losses) on investments	14,594	19,463	34,057
Net change in unrealized appreciation (depreciation) of investments	(8,787)	154,130	145,343
Net unrealized foreign exchange gains (losses) on investments	–	18,696	18,696
Disbursements for investments	385,376	206,186	591,562
Repayments of investments and other	(296,876)	(121,004)	(417,880)
Transfers from level 3 to level 1	–	(130)	(130)
Fair value as at March 31, 2019	1,144,759	1,791,118	2,935,877

The following table shows total gains or losses for financial instruments included in Level 3 that can be attributable to assets held at the end of the reporting periods.

	2020	2019
Net realized gains (losses) on investments	**14,929**	57,040
Net change in unrealized appreciation (depreciation) of investments	**(339,183)**	58,234
Net unrealized foreign exchange gains (losses) on investments	**35,310**	18,701
Total gains (losses) related to level 3 assets still held at the end of the reporting period	**(288,944)**	133,975

(in thousands of Canadian dollars)

8.
Cash and cash equivalents

As at March 31, 2020, and March 31, 2019, there are no restrictions on cash and cash equivalents. Cash and cash equivalents include the following components.

	March 31, 2020	March 31, 2019
Cash	**1,796,411**	54,316
Short-term bank notes	**24,986**	649,664
Cash and cash equivalents	**1,821,397**	703,980

On March 16, 2020, BDC issued 9,440,000 common shares for a cash consideration of $944.0 million, which represents a capital injection to support entrepreneurs with the Business Credit Availability Program (BCAP) during the COVID-19 health crisis.

9.
Derivative financial instruments

In compliance with BDC's Treasury Risk Policy, BDC uses the following derivative financial instruments to mitigate its foreign exchange rate risk, as well as its interest rate risk. BDC's policy is not to use derivative financial instruments for speculative purposes. BDC enters into master netting agreements with counterparties but does not proceed with netting financial assets and liabilities.

Swaps

Swaps are contractual obligations to exchange a series of cash flows on a specific notional amount for a predetermined period. The various swap agreements that BDC enters into are as follows:

- interest rate swaps, which involve exchange of fixed- and floating-rate interest payments; and
- cross-currency interest rate swaps, which involve the exchange of both interest and notional amounts in two different currencies.

The main risk associated with these instruments is related to movements in interest rates and foreign currencies.

Interest rate

BDC enters into interest rate swaps to hedge the financial impact of future interest rate fluctuations in relation to changes in the loan portfolio mix. Prior to March 31, 2018, these contracts were designated as cash flow hedges. BDC elected to de-designate the hedging instruments effective on March 31, 2018.

BDC also uses derivative financial instruments as an economic hedge for its structured notes. These instruments include interest rate swaps and cross-currency interest rate swaps. These instruments have been classified as fair value through profit and loss

(in thousands of Canadian dollars)

9. Derivative financial instruments (continued)

Foreign exchange rate

BDC economically hedges its long-term borrowings with cross-currency interest rate swaps, and its loans and subordinate financing investments with foreign exchange forward contracts. Venture capital investments are economically hedged following the occurrence of a liquidity event. These instruments are classified as fair value through profit and loss.

Forwards

Forwards are contractual agreements to either buy or sell currencies or financial instruments at specified prices and dates in the future. They are customized contracts transacted in the over-the-counter market.

The main risks associated with these instruments arise from the possible inability of over-the-counter counterparties to meet the terms of the contracts, and from movements in interest rates and foreign exchange rates.

The following tables provide the fair value of BDC's derivatives portfolio as represented by gross assets and gross liabilities values. Refer to Note 24—*Risk management*, for additional information on master netting agreements and collateral associated with derivatives.

			March 31, 2020
	Gross assets	Gross liabilities	Net amount
Interest rate swap contracts	**7,626**	**–**	**7,626**
Cross-currency interest rate swap contracts	**889**	**–**	**889**
Foreign exchange forward contracts	**3,841**	**16,125**	**(12,284)**
Total derivative financial instruments	**12,356**	**16,125**	**(3,769)**

			March 31, 2019
	Gross assets	Gross liabilities	Net amount
Interest rate swap contracts	9,055	–	9,055
Cross-currency interest rate swap contracts	612	–	612
Foreign exchange forward contracts	675	5,940	(5,265)
Total derivative financial instruments	10,342	5,940	4,402

The following table summarizes the notional amount, by term to maturity, of derivative instruments. Notional amounts, which are provided solely for comparative purposes, are not recorded as assets or liabilities on the Consolidated Statement of Financial Position, as they represent the face amount of the contract to which a rate or a price is applied to determine the amount of cash flows to be exchanged.

	Term to maturity				**March 31, 2020**	March 31, 2019
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	Notional amount	Notional amount
Interest rate swap contracts	**–**	**124,139**	**–**	**–**	**124,139**	124,139
Cross-currency interest rate swap contracts	**2,554**	**–**	**–**	**–**	**2,554**	2,554
Foreign exchange forward contracts	**548,537**	**–**	**–**	**–**	**548,537**	660,097
Total derivative financial instruments	**551,091**	**124,139**	**–**	**–**	**675,230**	786,790

The floating side for almost all of the Canadian dollar swap contracts is based on one-month Canadian bankers' acceptance rates. All amounts in foreign currencies are converted into the Canadian dollar equivalent using the rate of exchange of the derivative contracts.

(in thousands of Canadian dollars)

10.
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
						2020
Performing	**431,261**	**2,881,530**	**24,097,877**	**27,410,668**	**(784,505)**	**26,626,163**
Impaired	**47,155**	**162,819**	**851,619**	**1,061,593**	**(414,668)**	**646,925**
Loans as at March 31, 2020	**478,416**	**3,044,349**	**24,949,496**	**28,472,261**	**(1,199,173)**	**27,273,088**

	Within 1 year	1 to 5 years	Over 5 years	Total gross carrying amount	Allowance for expected credit losses	Total net carrying amount
						2019
Performing	461,618	2,929,543	22,271,524	25,662,685	(290,507)	25,372,178
Impaired	27,980	130,559	724,240	882,779	(338,735)	544,044
Loans as at March 31, 2019	489,598	3,060,102	22,995,764	26,545,464	(629,242)	25,916,222

Allowance for expected credit losses

The following tables show a reconciliation from the opening to the closing balance of the expected credit loss allowance.

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

(1) Provides the cumulative movement from the previous month allowance for expected credit losses due to changes in stages prior to remeasurements.
(2) Explains the movement in the allowance for expected credit losses attributable to changes in the gross carrying amount and credit risk of existing loans, changes to inputs and assumptions and partial repayments.

(in thousands of Canadian dollars)

10. Loans (continued)

Allowance for expected credit losses (continued)

				March 31, 2019
	Allowance for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2018	110,259	147,304	314,884	572,447
Provision for expected credit losses				
Transfer to Stage 1(1)	66,972	(64,383)	(2,589)	–
Transfer to Stage 2(1)	(42,875)	77,483	(34,608)	–
Transfer to Stage 3(1)	(1,663)	(32,062)	33,725	–
Net remeasurement of allowance for expected credit losses(2)	(86,647)	59,420	163,910	136,683
Financial assets that have been fully repaid	(11,502)	(19,702)	(37,108)	(68,312)
New financial assets originated	72,440	15,351	–	87,791
Write-offs	–	–	(119,061)	(119,061)
Recoveries	–	–	15,863	15,863
Foreign exchange and other movements	(104)	216	3,719	3,831
Balance as at March 31, 2019	106,880	183,627	338,735	629,242

(1) Provides the cumulative movement from the previous month allowance for expected credit losses due to changes in stages prior to remeasurements.
(2) Explains the movement in the allowance for expected credit losses attributable to changes in the gross carrying amount and credit risk of existing loans, changes to inputs and assumptions and partial repayments.

Key input and assumptions

The measurement of allowance for expected credit losses is the result of a complex calculation using a number of assumptions and inputs. The key drivers that contribute to changes in expected credit losses include:

> Changes in the forward-looking macro-economic conditions of multiple scenarios;

> Change in macro-economic scenarios and their respective weighting;

> Changes in the credit risk of loans as reflected by changes in the internal risk ratings;

> Change in volume of new loans and portfolio growth;

> Loan exposure migration between the stages because of changes of the above inputs and assumptions.

Forward-looking information

Forward-looking information is included in both the assessment of allowance for expected credit losses and whether a financial instrument has experienced a significant increase in credit risk. The probability of default (PD), the loss given default (LGD) and the exposure at default (EAD) inputs used to estimate the expected credit loss allowance on the performing portfolio reflect the scenario-weighted forward-looking assumptions. Forward-looking macro-economic variables are forecasted for the base case, upside case and downside case scenarios. For each of the three macro-economic scenarios, the expected credit loss estimate includes a projection of relevant macro-economic variables over the upcoming two years. Key variables include, but are not limited to, GDP growth, unemployment rates, Consumer Price Index, and interest rates. Forecasts include both national and provincial macro-economic variables.

The scenarios and weightings for the fiscal year-end reflect the impact of the COVID-19 crisis as the shutdown of non-essential businesses and the physical distancing measures have impacted economic activity across Canada. Each of the three scenarios were modified in order to account for the expected downturn in the Canadian economy. The scenario weightings were also adjusted to consider the severity of the ongoing crisis and the uncertainty around the current economic environment. The deterioration in economic assumptions impacted both the level of expected credit losses and the proportion of financial instruments classified in Stage 2.

(in thousands of Canadian dollars)

10. Loans (continued)

Sensitivity of expected credit losses

The following tables show the impact on the allowance for expected credit losses that would result under the assumption that all performing loans were in either Stage 1 or Stage 2.

	March 31, 2020	
	Allowance for expected credit losses on performing loans(1)	Impact of staging
As reported	**851,564**	**–**
Simulation		
Performing loans if they were all in Stage 1	**635,775**	**(215,789)**
Performing loans if they were all in Stage 2	**1,089,843**	**238,279**

(1) Includes loans and loans commitments.

	March 31, 2019	
	Allowance for expected credit losses on performing loans(1)	Impact of staging
As reported	312,972	–
Simulation		
Performing loans if they were all in Stage 1	209,670	(103,302)
Performing loans if they were all in Stage 2	541,332	228,360

(1) Includes loans and loans commitments.

Credit risk

The principal items of collateral pledged as security if a loan defaults and other credit enhancements for loans include (i) various types of security on assets; (ii) personal and corporate guarantees; (iii) letters of credit; (iv) assignments of life insurance; (v) assignments or hypothecs of third-party loans; and (vi) assignments of leases.

As at March 31, 2020, $59.7 million ($69.7 million as at March 31, 2019) of the impaired loans was secured by assets that BDC had the power to sell in order to satisfy borrower commitments. BDC's policy is to have these assets sold when other avenues of resolution have been exhausted.

(in thousands of Canadian dollars)

10. Loans (continued)

Credit risk (continued)

The following table summarizes performing and non-performing loans outstanding by client credit risk exposure based on BDC classification.

BDC rating	Grade equivalent	Stage 1	Stage 2	Stage 3	Total	**March 31, 2020** %
0.5-1.0	Investment grade	**2,517,354**	**204,789**	**–**	**2,722,143**	**10%**
1.5-5.0	Non-investment grade	**16,823,490**	**6,689,232**	**–**	**23,512,722**	**83%**
5.5	Watchlist	**–**	**1,175,803**	**–**	**1,175,803**	**4%**
6.0 and up	Credit-impaired	**–**	**–**	**1,061,593**	**1,061,593**	**3%**
Gross carrying amount		**19,340,844**	**8,069,824**	**1,061,593**	**28,472,261**	**100%**
Allowance for expected credit losses		**(270,249)**	**(514,256)**	**(414,668)**	**(1,199,173)**	
Net carrying amount		**19,070,595**	**7,555,568**	**646,925**	**27,273,088**	

BDC rating	Grade equivalent	Stage 1	Stage 2	Stage 3	Total	March 31, 2019 %
0.5-1.0	Investment grade	2,768,392	176	–	2,768,568	10%
1.5-5.0	Non-investment grade	18,632,151	3,289,018	–	21,921,169	83%
5.5	Watchlist	–	972,948	–	972,948	4%
6.0 and up	Credit-impaired	–	–	882,779	882,779	3%
Gross carrying amount		21,400,543	4,262,142	882,779	26,545,464	100%
Allowance for expected credit losses		(106,880)	(183,627)	(338,735)	(629,242)	
Net carrying amount		21,293,663	4,078,515	544,044	25,916,222	

The following tables summarize loans outstanding, classified by secured risk exposure coverage.

Secured risk exposure	Performing loans outstanding	Impaired loans outstanding	Total	**March 31, 2020**
Secured financing[1]	**19,821,843**	**784,589**	**20,606,432**	**72%**
Partially secured financing[2]	**3,240,522**	**89,332**	**3,329,854**	**12%**
Leverage financing[3]	**4,348,303**	**187,672**	**4,535,975**	**16%**
Loans outstanding	**27,410,668**	**1,061,593**	**28,472,261**	**100%**

(1) % of security shortfall at authorization is less than 30%.
(2) % of security shortfall at authorization is between 31% and 60%.
(3) % of security shortfall at authorization is over 60%.

Secured risk exposure	Performing loans outstanding	Impaired loans outstanding	Total	March 31, 2019
Secured financing[1]	19,019,052	662,014	19,681,066	74%
Partially secured financing[2]	2,718,679	81,958	2,800,637	11%
Leverage financing[3]	3,924,954	138,807	4,063,761	15%
Loans outstanding	25,662,685	882,779	26,545,464	100%

(1) % of security shortfall at authorization is less than 30%.
(2) % of security shortfall at authorization is between 31% and 60%.
(3) % of security shortfall at authorization is over 60%.

(in thousands of Canadian dollars)

10. Loans (continued)

Credit risk (continued)

BDC considers a loan past due when a client has not made a payment by the contractual due date. The following table shows the gross carrying value of loans that are past due but not classified as impaired because they are either less than three months past due or collection efforts are reasonably expected to result in repayment.

Loans past due but not impaired	Within 1 month	1 to 3 months	Over 3 months	Total
As at March 31, 2020	**632,623**	**50,309**	**34,514**	**717,446**
As at March 31, 2019	117,325	52,639	6,640	176,604

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. The largest concentration in one individual or closely related group of clients was less than 1% as at March 31, 2020, and March 31, 2019.

Undisbursed amounts of authorized loans stood at $3,074,649 as at March 31, 2020 ($1,054,696 fixed rate; $2,019,953 floating rate) ($3,398,260 as at March 31, 2019 ($885,372 fixed rate; $2,512,888 floating rate)). The weighted-average effective interest rate was 4.46% on loan commitments (5.4% as at March 31, 2019).

		March 31, 2020		March 31, 2019
Geographic distribution	Outstanding	Commitments	Outstanding	Commitments
Newfoundland and Labrador	**870,736**	**66,841**	872,253	64,505
Prince Edward Island	**78,750**	**2,098**	76,710	742
Nova Scotia	**676,641**	**82,782**	611,653	84,699
New Brunswick	**524,227**	**38,746**	503,653	56,362
Quebec	**8,960,967**	**943,956**	8,391,225	871,593
Ontario	**7,784,743**	**839,924**	7,274,249	1,041,457
Manitoba	**805,175**	**80,986**	809,126	77,695
Saskatchewan	**793,821**	**62,499**	805,488	44,786
Alberta	**4,131,995**	**483,156**	3,794,416	607,375
British Columbia	**3,673,584**	**458,736**	3,248,568	524,922
Yukon	**117,235**	**3,019**	108,785	16,102
Northwest Territories and Nunavut	**54,387**	**11,906**	49,338	8,022
Total loans outstanding	**28,472,261**	**3,074,649**	26,545,464	3,398,260

		March 31, 2020		March 31, 2019
Industry sector	Outstanding	Commitments	Outstanding	Commitments
Manufacturing	**6,434,657**	**857,111**	6,172,012	855,002
Wholesale and retail trade	**5,204,352**	**511,853**	4,925,716	527,819
Service industries	**4,156,135**	**414,829**	3,818,955	465,564
Tourism	**3,295,761**	**273,727**	3,213,509	404,885
Commercial properties	**3,148,960**	**130,238**	2,894,525	176,480
Construction	**2,364,589**	**298,909**	2,031,354	286,689
Transportation and storage	**1,778,237**	**170,721**	1,550,291	201,925
Resources	**1,145,173**	**230,917**	1,062,907	279,786
Other	**944,397**	**186,344**	876,195	200,110
Total loans outstanding	**28,472,261**	**3,074,649**	26,545,464	3,398,260

(in thousands of Canadian dollars)

10. Loans (continued)

Credit risk (continued)

The following tables summarize loan commitments outstanding by client credit risk exposure based on BDC classification.

						March 31, 2020
BDC rating	Grade equivalent	Stage 1	Stage 2	Stage 3	Total	%
0.5-1.0	Investment grade	**298,045**	**85,985**	**–**	**384,030**	**12%**
1.5-5.0	Non-investment grade	**2,187,170**	**472,469**	**–**	**2,659,639**	**87%**
5.5	Watchlist	**–**	**30,980**	**–**	**30,980**	**1%**
6.0 and up	Credit-impaired	**–**	**–**	**–**	**–**	**0%**
Total loan commitment outstanding		**2,485,215**	**589,434**	**–**	**3,074,649**	**100%**
Allowance for expected credit losses		**(41,778)**	**(25,281)**	**–**	**(67,059)**	
Carrying value		**2,443,437**	**564,153**	**–**	**3,007,590**	

						March 31, 2019
BDC rating	Grade equivalent	Stage 1	Stage 2	Stage 3	Total	%
0.5-1.0	Investment grade	613,817	–	–	613,817	18%
1.5-5.0	Non-investment grade	2,679,581	90,292	–	2,769,873	82%
5.5	Watchlist	–	14,570	–	14,570	0%
6.0 and up	Credit-impaired	–	–	–	–	0%
Total loan commitment outstanding		3,293,398	104,862	–	3,398,260	100%
Allowance for expected credit losses		(17,984)	(4,481)	–	(22,465)	
Carrying value		3,275,414	100,381	–	3,375,795	

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

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

				March 31, 2019
Allowance for expected credit losses on commitments	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2018	16,320	5,367	–	21,687
Net remeasurement of the allowance for expected credit losses	(2,371)	8,786	–	6,415
Net increase (decrease) in commitments	4,044	(9,689)	–	(5,645)
Foreign exchange and other movements	(9)	17	–	8
Balance as at March 31, 2019	17,984	4,481	–	22,465

(in thousands of Canadian dollars)

11.
Asset-backed securities

The following table summarizes ABS by classification of financial instruments. As at March 31, 2020, $104,407 in ABS had maturities of less than five years ($39,867 as at March 31, 2019) and $673,431 had maturities over five years ($660,476 as at March 31, 2019). The ABS may be redeemed by the issuing trust at par depending on the terms of the securitization deal if the balance of the underlying assets or, in some cases, the balance of the notes, amortizes below 10% of the original balance at issuance. No ABS were impaired as at March 31, 2020, and March 31, 2019. No allowance for expected credit losses was recorded for disbursed and undisbursed ABS at fair value through other comprehensive income as at March 31, 2020 and March 31, 2019. Refer to Note 24—*Risk management*, for additional information on credit risk associated with the ABS portfolio.

	March 31, 2020	March 31, 2019
Fair value through other comprehensive income		
Principal amount	**762,715**	688,049
Cumulative fair value appreciation (depreciation)	**5,266**	2,751
Carrying value	**767,981**	690,800
Yield	**2.59%**	2.66%
Fair value through profit or loss		
Principal amount	**9,701**	9,450
Cumulative fair value appreciation (depreciation)	**156**	93
Carrying value	**9,857**	9,543
Yield	**7.56%**	7.86%
Asset-backed securities	**777,838**	700,343

Committed amounts of authorized asset-backed securities were $238,489 as at March 31, 2020 ($299,269 as at March 31, 2019).

12.
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 March 31, 2020	**165,748**	**808,846**	**419,049**	**1,393,643**	**1,240,588**
As at March 31, 2019	157,105	686,162	357,600	1,200,867	1,152,182

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

(in thousands of Canadian dollars)

12. Subordinate financing investments (continued)

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. The largest concentration in one individual or closely related group of clients as at March 31, 2020, was 2.7% of total subordinate financing investments at cost (1.9% as at March 31, 2019). The subordinate financing portfolio is composed primarily of debentures.

Undisbursed amounts of authorized subordinate financing investments were $176,322 as at March 31, 2020 ($130,900 fixed rate; $45,422 floating rate) ($201,066 as at March 31, 2019 ($84,050 fixed rate; $117,016 floating rate)). The weighted-average effective interest rate was 11.5% on subordinate financing commitments (9.0% as at March 31, 2019), excluding non-interest return.

			March 31, 2020			March 31, 2019
Geographic distribution	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Newfoundland and Labrador	**18,402**	**26,509**	**6,875**	20,059	24,952	7,225
Nova Scotia	**10,557**	**12,720**	**5,000**	11,879	12,810	–
New Brunswick	**16,044**	**16,387**	**–**	25,584	23,496	1,200
Quebec	**426,149**	**462,558**	**35,050**	455,713	459,756	41,660
Ontario	**442,600**	**498,251**	**66,251**	378,353	412,000	80,685
Manitoba	**1,720**	**3,316**	**10,500**	713	2,101	–
Saskatchewan	**46,224**	**58,169**	**600**	51,023	51,337	–
Alberta	**136,548**	**167,057**	**25,615**	90,591	104,241	9,844
British Columbia	**139,509**	**145,709**	**26,431**	114,348	106,358	60,452
Yukon	**325**	**332**	**–**	450	443	–
Northwest Territories and Nunavut	**2,510**	**2,635**	**–**	3,469	3,373	–
Subordinate financing investments	**1,240,588**	**1,393,643**	**176,322**	1,152,182	1,200,867	201,066

			March 31, 2020			March 31, 2019
Industry sector	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Manufacturing	**367,429**	**430,194**	**42,104**	389,911	409,767	90,817
Service industries	**327,271**	**349,335**	**67,951**	316,625	320,662	43,472
Wholesale and retail trade	**190,756**	**211,079**	**10,400**	187,763	200,700	38,235
Resources	**105,545**	**133,594**	**9,000**	40,387	58,791	350
Information industries	**101,800**	**112,665**	**19,614**	65,332	66,343	10,575
Construction	**57,691**	**63,012**	**10,000**	57,165	58,698	10,000
Transportation and storage	**48,431**	**52,565**	**3,300**	44,859	48,042	3,450
Educational services	**11,457**	**12,043**	**11,250**	6,466	6,386	–
Tourism	**10,419**	**11,762**	**2,703**	11,647	11,625	4,167
Commercial properties	**–**	**–**	**–**	1,791	1,734	–
Other	**19,789**	**17,394**	**–**	30,236	18,119	–
Subordinate financing investments(1)	**1,240,588**	**1,393,643**	**176,322**	1,152,182	1,200,867	201,066

(1) Subordinate financing commitments included $3,400 in the Financing segment, $125,641 in the Growth & Transition Capital segment and $47,281 in the Cleantech Practice segment as at March 31, 2020 ($550, $142,308 and $58,208, respectively, as at March 31, 2019).

13.
Venture capital investments

Through its Venture Capital (VC), Venture Capital Incentive Programs (VCIP) and Cleantech Practice segments, BDC maintains a high-risk portfolio of venture capital investments.

VC is focused on early-stage and fast-growing technology companies having promising positions in their respective marketplaces and strong growth potential. VCIP comprises two federal government initiatives: Venture Capital Action Plan (VCAP) and Venture Capital Catalyst Initiative (VCCI). In past years, VC and VCIP (previously VCAP) investments were presented separately in the Consolidated Statement of Financial Position.

Venture Capital Action Plan is a federal government initiative to invest $390 million to increase private sector venture capital financing for high-potential, innovative Canadian businesses.

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

Venture Capital Catalyst Initiative (VCCI) is also a government-sponsored initiative whereby $371 million is made available through BDC over three years to provide late-stage venture capital to support the growth of innovative start-ups.

Cleantech Practice will deploy $600 million entrusted by the federal government in debt and equity transactions to help build globally competitive Canadian cleantech firms and a commercially sustainable cleantech industry.

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

(in thousands of Canadian dollars)

13. Venture capital investments (continued)

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

			March 31, 2020			March 31, 2019
Investment type	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Direct investments						
Venture Capital	**692,194**	**633,443**	**33,812**	906,780	603,198	13,275
Funds[1]						
Venture Capital	**603,708**	**441,616**	**415,810**	659,447	418,244	382,140
Venture Capiltal Action Plan	**399,613**	**364,733**	**18,497**	461,547	368,694	22,761
Venture Capital Catalyst Initiative	**19,660**	**34,152**	**329,215**	4	4	298,265
Venture Capital Incentive Programs	**419,273**	**398,885**	**347,712**	461,551	368,698	321,026
Cleantech Practice	**5,961**	**7,679**	**48,136**	–	–	40,024
	1,028,942	**848,180**	**811,658**	1,120,998	786,942	743,190
Venture capital investments	**1,721,136**	**1,481,623**	**845,470**	2,027,778	1,390,140	756,465

(1) As at March 31, 2020, BDC has invested in 84 funds through its VC segment, 21 funds through its VCIP segment and 3 funds through its Cleantech Practice segment (76, 17 and 2 funds, respectively, as at March 31, 2019).

The concentrations by industry sector for direct investments are listed below. The largest single investment within these sectors as at March 31, 2020 was 3.33% of total venture capital direct investments at cost (5.93% as at March 31, 2019).

			March 31, 2020			March 31, 2019
Industry sector	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Information technology	**376,573**	**303,365**	**12,151**	364,372	263,658	8,338
Communications	**86,829**	**69,161**	**1,906**	61,974	58,973	607
Electronics	**58,792**	**70,836**	**796**	49,789	55,818	3,252
Biotechnology and pharmacology	**46,879**	**57,754**	**4,415**	278,487	87,102	–
Industrial	**33,799**	**26,705**	**–**	69,458	24,505	–
Energy	**27,137**	**19,670**	**482**	22,651	36,570	–
Medical and health	**24,169**	**55,481**	**–**	26,424	56,852	1,078
Other	**38,016**	**30,471**	**14,062**	33,625	19,720	–
Total direct investments	**692,194**	**633,443**	**33,812**	906,780	603,198	13,275

(in thousands of Canadian dollars)

14.
Property and equipment

	Computer and telecommunications equipment	Furniture, fixtures and equipment	Leasehold improvements	Total
				2020
Cost				
Balance as at March 31, 2019	**25,266**	**23,436**	**39,628**	**88,330**
Additions	**4,116**	**4,113**	**9,631**	**17,860**
Derecognition(1)	**(3,072)**	**(837)**	**(836)**	**(4,745)**
Balance as at March 31, 2020	**26,310**	**26,712**	**48,423**	**101,445**
Accumulated depreciation				
Balance as at March 31, 2019	**10,944**	**6,835**	**10,521**	**28,300**
Depreciation	**3,966**	**2,546**	**3,520**	**10,032**
Derecognition(1)	**(3,072)**	**(683)**	**(836)**	**(4,591)**
Balance as at March 31, 2020	**11,838**	**8,698**	**13,205**	**33,741**
Property and equipment as at March 31, 2020	**14,472**	**18,014**	**35,218**	**67,704**

(1) Derecognition of $4.7 million relates to property and equipment that are no longer in use.

	Computer and telecommunications equipment	Furniture, fixtures and equipment	Leasehold improvements	Total
				2019
Cost				
Balance as at March 31, 2018	20,850	23,086	35,326	79,262
Additions	6,039	4,796	8,663	19,498
Derecognition(1)	(1,623)	(4,446)	(4,361)	(10,430)
Balance as at March 31, 2019	25,266	23,436	39,628	88,330
Accumulated depreciation				
Balance as at March 31, 2018	9,181	7,497	11,287	27,965
Depreciation	3,377	2,389	3,360	9,126
Derecognition(1)	(1,614)	(3,051)	(4,126)	(8,791)
Balance as at March 31, 2019	10,944	6,835	10,521	28,300
Property and equipment as at March 31, 2019	14,322	16,601	29,107	60,030

(1) Derecognition of $10.4 million relates to property and equipment that are no longer in use.

No property and equipment were impaired as at March 31, 2020 and 2019.

As at March 31, 2020, there were no significant contractual commitments to acquire property and equipment ($6,093 as at March 31, 2019).

(in thousands of Canadian dollars)

15.
Intangible assets

	Acquired systems and software applications	Internally generated systems and software applications	Projects in progress	Total
				2020
Cost				
Balance as at March 31, 2019	**94,195**	**20,093**	**9,498**	**123,786**
Additions, separately acquired	**–**	**–**	**13,749**	**13,749**
Derecognition[1]	**–**	**–**	**(1,671)**	**(1,671)**
Available for use	**–**	**–**	**–**	**–**
Balance as at March 31, 2020	**94,195**	**20,093**	**21,576**	**135,864**
Accumulated amortization				
Balance as at March 31, 2019	**81,871**	**2,980**	**–**	**84,851**
Amortization	**6,748**	**2,740**	**–**	**9,488**
Derecognition	**–**	**–**	**–**	**–**
Balance as at March 31, 2020	**88,619**	**5,720**	**–**	**94,339**
Intangible assets as at March 31, 2020	**5,576**	**14,373**	**21,576**	**41,525**

(1) Derecognition of $1.7 million relates to an impairment of a project in progress with no future economic benefits.

	Acquired systems and software applications	Internally generated systems and software applications	Projects in progress	Total
				2019
Cost				
Balance as at March 31, 2018	95,535	8,693	10,189	114,417
Additions, separately acquired	–	–	10,709	10,709
Derecognition[1]	(1,340)	–	–	(1,340)
Available for use	–	11,400	(11,400)	–
Balance as at March 31, 2019	94,195	20,093	9,498	123,786
Accumulated amortization				
Balance as at March 31, 2018	75,581	630	–	76,211
Amortization	7,630	2,350	–	9,980
Derecognition[1]	(1,340)	–	–	(1,340)
Balance as at March 31, 2019	81,871	2,980	–	84,851
Intangible assets as at March 31, 2019	12,324	17,113	9,498	38,935

(1) Derecognition of $1.3 million relates to fully amortized intangible assets no longer in use.

As at March 31, 2020, and March 31, 2019, there were no significant contractual commitments to acquire systems and software.

(in thousands of Canadian dollars)

16.
Leases

Right-of-use assets

	March 31, 2020
	Premise leases
Cost	
Balance as at April 1, 2019	**116,119**
Additions	**25,568**
Disposal	**(406)**
Balance as at March 31, 2020	**141,281**
Accumulated depreciation	
Balance as at April 1, 2019	**–**
Depreciation	**14,164**
Disposal	**(406)**
Balance as at March 31, 2020	**13,758**
Right-of-use assets	**127,523**

Lease liabilities

Maturity analysis—contractual undiscounted cash flow for lease liabilities

	March 31, 2020
Within 1 year	**14,129**
1 to 5 years	**55,640**
After 5 years	**80,243**
Total undiscounted lease liabilities as at March 31, 2020	**150,012**

As at March 31, 2020, lease liabilities included in the Consolidated Statement of Financial Position totalled $137,201 of which $12,063 was short-term and $125,138 was long-term.

Amounts recognized in the Consolidated Statement of Income (Loss)

The following table summarizes amounts recognized in the Consolidated Statement of Income (Loss) for the year ended March 31, 2020.

	March 31, 2020
Interest on lease liabilities	**1,984**
Payments of non-lease components	**16,787**
Expenses relating to short-term leases	**170**
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	**–**
	18,941

(in thousands of Canadian dollars)

16. Leases (continued)

Lease commitments

BDC`s future minimum non-fixed lease payments and cost for services related to the rental of premises are as follows:

	March 31, 2020
Within 1 year	**16,054**
1 to 5 years	**63,756**
After 5 years	**113,190**
Total	**193,000**

Leases not yet commenced to which BDC is committed amounted to $3,190 as at March 31, 2020.

Premise leases

BDC leases premises to provide office space for its head office and business centres. The leases typically run for a period of 5 to 10 years. Some leases include options to renew the lease for additional periods.

Some leases also require BDC to make payments that relate to the property taxes, business taxes and water taxes levied on the lessor. These amounts are generally variable payments determined annually.

Renewal options

Some premise leases contain extension options exercisable by BDC up to between 60 and 120 months depending on the contract terms. BDC assesses at lease commencement whether it is reasonably certain to exercise the extension options. BDC reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

(in thousands of Canadian dollars)

17.

Other assets

	March 31, 2020	March 31, 2019
Financial instruments measured at amortized cost		
Interest receivable on derivatives	**722**	704
Accounts receivable from advisory clients	**1,623**	2,087
Other	**8,681**	7,071
	11,026	9,862
Prepaids and other	**17,396**	16,297
Other assets	**28,422**	26,159

18.

Accounts payable and accrued liabilities

	March 31, 2020	March 31, 2019
Financial instruments measured at amortized cost		
Current		
Salaries and benefits payable	**80,009**	62,496
Accounts payable	**15,588**	15,298
Other	**17,181**	18,593
	112,778	96,387
Long-term accrued liabilities	**45,514**	45,025
Accounts payable and accrued liabilities	**158,292**	141,412

(in thousands of Canadian dollars)

19.

Borrowings

The table below presents the outstanding short-term notes.

Maturity date	Effective rate	Currency	March 31, 2020 Principal amount [1]	March 31, 2020 Carrying value	March 31, 2019 Principal amount [1]	March 31, 2019 Carrying value
Short-term notes/ financial liabilities mesured at amortized cost						
2020	1.59% - 1.66%	CAD			20,935,000	20,950,785
	2.31%	USD			844	1,129
2021	0.22% - 1.38%	CAD	**19,350,000**	**19,356,337**		
	0.00%	CAD	**4,700**	**4,700**		
	0.10%	USD	**844**	**1,187**		
Total short-term notes				**19,362,224**		20,951,914

(1) The principal amount is presented in the original currency.

The table below presents the outstanding long-term notes by maturity.

Maturity date	2020 Effective rate [1]	2019 Effective rate [1]	Currency	March 31, 2020 Principal amount [2]	March 31, 2020 Carrying value	March 31, 2019 Principal amount [2]	March 31, 2019 Carrying value
Long-term notes/ financial liabilities measured at amortized cost							
2022	1.42% - 2.37%	2.32% - 2.37%	CAD	**270,000**	**271,180**	120,000	120,565
2023	1.41% - 2.16%	2.07% - 2.16%	CAD	**650,000**	**652,519**	230,000	231,016
2024	1.38% - 2.27%	1.66% - 2.27%	CAD	**735,000**	**738,423**	410,000	411,732
2025	1.14% - 2.45%	2.06% - 2.45%	CAD	**1,375,000**	**1,380,122**	345,000	347,156
2026	1.23% - 2.27%	2.24% - 2.27%	CAD	**300,000**	**301,051**	55,000	55,425
2027	1.14% - 2.09%	2.09%	CAD	**435,000**	**436,629**	40,000	40,194
2028	1.45% - 2.10%	2.10%	CAD	**160,000**	**160,693**	45,000	45,284
2029	1.62% - 2.11%	2.10% - 2.11%	CAD	**105,000**	**105,704**	55,000	55,250
2030	1.14%	–	CAD	**25,000**	**25,011**	–	–
					4,071,332		1,306,622
Long-term notes/ designated at fair value through profit or loss							
2021	1.16%	1.73%	JPY	**260,000**	**3,447**	260,000	3,160
2022	0.90% - 1.41%	1.62% - 1.72%	CAD	**124,139**	**132,287**	124,139	132,868
					135,734		136,028
Total long-term notes					**4,207,066**		1,442,650

(1) The effective rates on long-term notes are established after giving effect to swap contracts, when applicable, and refer to yield to maturity for fixed-rate issues and yield to reset for floating-rate issues.
(2) The principal amount is presented in the original currency.

(in thousands of Canadian dollars)

19. Borrowings (continued)

The total carrying value of the long-term notes designated at fair value through profit or loss as at March 31, 2020, was $9,041 higher than the total principal amount due at maturity, given respective exchange rates, fair value adjustments and interest accrued (as at March 31, 2019, it was $9,336 higher).

None of the liabilities designated at FVTPL was derecognized during the year ended March 31, 2020 and March 31, 2019.

The table below presents the long-term notes by type.

	March 31, 2020	March 31, 2019
Interest-bearing notes	**4,203,619**	1,439,490
Other structured notes	**3,447**	3,160
Total long-term notes	**4,207,066**	1,442,650

The following tables show the cash flows and non-cash changes for borrowings.

		Cash flows		Non-cash changes			
	Balance at beginning of period	Issuances	Repayments	Fair value changes	Accrued interests	Changes in foreign exchange rate	Balance at end of period
2020							
Measured at amortized cost							
Short-term notes	**20,951,914**	**24,309,700**	**(25,890,000)**	**–**	**(9,450)**	**60**	**19,362,224**
Long-term notes	**1,306,622**	**2,755,000**	**–**	**–**	**9,710**	**–**	**4,071,332**
	22,258,536	**27,064,700**	**(25,890,000)**	**–**	**260**	**60**	**23,433,556**
Designated at fair value through profit or loss							
Long-term notes	**136,028**	**–**	**–**	**(572)**	**8**	**270**	**135,734**
	22,394,564	**27,064,700**	**(25,890,000)**	**(572)**	**268**	**330**	**23,569,290**

		Cash flows		Non-cash changes			
	Balance at beginning of period	Issuances	Repayments	Fair value changes	Accrued interests	Changes in foreign exchange rate	Balance at end of period
2019							
Measured at amortized cost							
Short-term notes	20,481,148	26,405,000	(25,940,000)	–	5,727	39	20,951,914
Long-term notes	–	1,300,000	–	–	6,622	–	1,306,622
	20,481,148	27,705,000	(25,940,000)	–	12,349	39	22,258,536
Designated at fair value through profit or loss							
Long-term notes	137,684	–	–	(1,640)	1	(17)	136,028
	20,618,832	27,705,000	(25,940,000)	(1,640)	12,350	22	22,394,564

20.

Net defined benefit asset or liability

BDC offers defined benefit plans that provide pension and other post-employment benefits to eligible employees. The defined benefit pension plans provide benefits based on years of service and average earnings at retirement, fully or partially indexed to the Consumer Price Index, depending on the option chosen by eligible employees hired before January 1, 2015, and partially indexed to the Consumer Price Index for employees hired after December 31, 2014. Other post-employment benefit plans include health, dental, critical illness and life insurance coverage, as well as a retirement allowance program for a closed group of employees who meet certain conditions.

These defined benefit plans expose BDC to actuarial risks, such as longevity risk, interest rate risk, inflation risk and market (investment) risk. The interest rate risk arises because, each year, the present value of the defined benefit obligation is calculated using a discount rate determined by reference to current market yields of high-quality corporate and provincial bonds, which may vary in the future. A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments. The investment risk arises because the actual return on the plan assets may not be sufficient to fulfill future obligations. The longevity risk arises because the present value of the obligation is calculated using projected cash flows based on a life expectancy table reflecting current expectations, which may change over time, and the inflation risk arises because the actual inflation rate in a given year may be different than the rate used for estimation purposes. For each of these risks, an unfavorable variance in any given year will result in an increase in the present value of the obligation and, ultimately, in higher costs. The risk that such unfavorable variances might arise is considered by the actuaries and management when reviewing the inputs to the annual actuarial valuation report.

BDC is the legal administrator of these plans and has implemented a governance structure, as follows:

> The Management Pension Funds Investment Committee (MPFIC) of BDC is established to act in an advisory capacity to the Human Resources Committee of the Board (HR Committee) on the Funds' investment strategies and to manage the funds according to the statements of investment policies. The MPFIC reports to the HR Committee and is chaired by the Treasurer.

> The HR Committee is responsible for design, funding, administration, communications and compliance related to the plans, as well as for overseeing—in conjunction with a pensioner, acting as an observer—all activities related to the investments of the funds of the Pension Plan for Employees of the Business Development Bank of Canada (registered pension plan) and BDC's supplemental pension plans (jointly referred to as the fund). The HR Committee reports directly to the board, comprises board members and is supported by BDC's MPFIC.

> The board is responsible for overall monitoring of the plans and the fund, and for approving recommendations from the HR Committee.

The registered pension plan is governed according to applicable federal legislation, such as the *Pension Benefits Standards Act* and the *Income Tax Act*. The plan is under the jurisdiction of the Office of the Superintendent of Financial Institutions. Participants contribute a fixed percentage of their earnings to the plan, while BDC contributes the amount needed to maintain adequate funding, as dictated by the prevailing regulations. BDC may be required to take measures to offset any funding and solvency deficit by increasing its contributions. In addition, BDC pays the entire cost of the supplemental pension plans. The HR Committee is responsible for the investment and funding policies related to the registered and supplemental pension plans.

The registered pension plan is either partly or wholly funded in accordance with actuarially determined amounts required to satisfy employee benefit entitlements. Benefits accruing to members of the contributory component of the registered pension plan are also funded by contributions by plan participants. BDC's best estimate of contributions to be paid for fiscal 2021 for the registered pension plan is $23.3 million. The supplemental pension plans are partly funded by BDC and BDC's best estimate of contributions for fiscal 2021 is $8.4 million. The other benefit plans are wholly unfunded. Estimated BDC-paid benefits for other post-employment benefit plans (including the retirement allowance plan) for fiscal 2021 amount to $6.6 million.

(in thousands of Canadian dollars)

20. Net defined benefit asset or liability (continued)

The following tables provide aggregate, information concerning the defined benefit plans.

	Registered pension plan		Supplemental pension plans		Other plans		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Fair value of net plan assets at beginning of year	**1,635,482**	1,566,494	**78,254**	75,406	**–**	–	**1,713,736**	1,641,900
Interest income	**55,661**	57,168	**2,778**	2,871	**–**	–	**58,439**	60,039
Employer contributions	**27,548**	27,130	**7,809**	7,420	**–**	–	**35,357**	34,550
Participant contributions	**26,179**	25,368	**–**	–	**–**	–	**26,179**	25,368
Benefit payments from plan	**(49,107)**	(51,801)	**(4,671)**	(4,594)	**–**	–	**(53,778)**	(56,395)
Administrative expenses paid from plan assets	**(1,428)**	(1,216)	**(129)**	(53)	**–**	–	**(1,557)**	(1,269)
Remeasurements								
Return on plan assets (excluding interest income)	**(158,191)**	12,339	**(9,745)**	(2,796)	**–**	–	**(167,936)**	9,543
Fair value of net plan assets at end of year	**1,536,144**	1,635,482	**74,296**	78,254	**–**	–	**1,610,440**	1,713,736
Defined benefit obligation at beginning of year	**1,614,999**	1,471,191	**154,777**	141,930	**205,683**	188,701	**1,975,459**	1,801,822
Current service cost	**53,400**	48,058	**4,033**	3,789	**8,909**	8,192	**66,342**	60,039
Interest expense	**54,075**	52,753	**5,183**	5,096	**6,876**	6,769	**66,134**	64,618
Benefit payments from plan	**(49,107)**	(51,801)	**(4,671)**	(4,594)	**–**	–	**(53,778)**	(56,395)
Benefit payments from employer	**–**	–	**–**	–	**(5,735)**	(5,779)	**(5,735)**	(5,779)
Participant contributions	**26,179**	25,368	**–**	–	**–**	–	**26,179**	25,368
Remeasurements								
Effect of changes in demographic assumptions	**–**	–	**–**	–	**(11,360)**	(499)	**(11,360)**	(499)
Effect of changes in financial assumptions	**(215,470)**	65,559	**(20,336)**	6,124	**(26,655)**	11,773	**(262,461)**	83,456
Effect of experience adjustments	**10,287**	3,871	**5,292**	2,432	**(1,257)**	(3,474)	**14,322**	2,829
Defined benefit obligation at end of year	**1,494,363**	1,614,999	**144,278**	154,777	**176,461**	205,683	**1,815,102**	1,975,459
Total net defined benefit asset	**41,781**	20,483	**–**	–	**–**	–	**41,781**	20,483
Total net defined benefit liability	**–**	–	**69,982**	76,523	**176,461**	205,683	**246,443**	282,206

(in thousands of Canadian dollars)

20. Net defined benefit asset or liability (continued)

	Registered pension plan		Supplemental pension plans		Other plans		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Expense recognized in net income								
Current service cost	**53,400**	48,058	**4,033**	3,789	**8,909**	8,192	**66,342**	60,039
Interest expense on defined benefit obligation	**54,075**	52,753	**5,183**	5,096	**6,876**	6,769	**66,134**	64,618
Interest income on plan assets	**(55,661)**	(57,168)	**(2,778)**	(2,871)	**–**	–	**(58,439)**	(60,039)
Administrative expenses	**1,428**	1,216	**129**	53	**–**	–	**1,557**	1,269
Expense recognized in net income	**53,242**	44,859	**6,567**	6,067	**15,785**	14,961	**75,594**	65,887
Remeasurements recognized in OCI								
Effect of changes in demographic assumptions	**–**	–	**–**	–	**11,360**	499	**11,360**	499
Effect of changes in financial assumptions	**215,470**	(65,559)	**20,336**	(6,124)	**26,655**	(11,773)	**262,461**	(83,456)
Effect of experience adjustments	**(10,287)**	(3,871)	**(5,292)**	(2,432)	**1,257**	3,474	**(14,322)**	(2,829)
Return on plan assets (excluding interest income)	**(158,191)**	12,339	**(9,745)**	(2,796)	**–**	–	**(167,936)**	9,543
Remeasurement gain (loss) recognized in OCI	**46,992**	(57,091)	**5,299**	(11,352)	**39,272**	(7,800)	**91,563**	(76,243)

(in thousands of Canadian dollars)

20. Net defined benefit asset or liability (continued)

Net plan assets for BDC's registered and supplemental pension plans can be broken down into the following major categories of investments.

			March 31, 2020			March 31, 2019(1)
Investment type	Quoted on active market	Unquoted	Total	Quoted on active market	Unquoted	Total
Investments						
Cash	**24,108**	**–**	**24,108**	20,522	–	20,522
Short-term investments	**–**	**3,678**	**3,678**	–	9,625	9,625
Securities purchased under reverse repuchase agreements	**–**	**319,056**	**319,056**	–	514,118	514,118
Bonds						
Government of Canada	**–**	**286,248**	**286,248**	–	352,155	352,155
Canadian provinces	**–**	**426,753**	**426,753**	–	746,853	746,853
Canadian corporate and municipal	**–**	**255,678**	**255,678**	–	79,905	79,905
Equity investments						
Canadian equity	**109,937**	**145,644**	**255,581**	177,714	137,323	315,037
Global equity	**457,636**	**–**	**457,636**	529,136	–	529,136
Private market	**–**	**193,951**	**193,951**	–	137,255	137,255
Other	**–**	**42,609**	**42,609**	–	46,139	46,139
Investment-related liabilities						
Securities sold under repurchase agreements	**–**	**323,875**	**323,875**	–	502,902	502,902
Securities sold short	**–**	**330,983**	**330,983**	–	534,107	534,107
Fair value of net plan assets	**591,681**	**1,018,759**	**1,610,440**	727,372	986,364	1,713,736

(1) In fiscal 2019, the Fund had a provincial spread overlay strategy described below. In order to provide additional information on the nature of the investments related to this strategy, the comparative amounts were reclassified to present them on a separate line. These investments were previously presented net under the line "credit spread overlay strategy". The main investments under this strategy include the securities purchased under reverse repurchase agreements and sold under repurchase agreements, the provincial bonds, and the securities sold short.

The investment objective for the plan assets of the registered pension plan is to outperform, in the long term, the pension obligation growth rate to compensate for the risk taken. The HR Committee annually reviews the investment policy, which stipulates a diversification strategy, an acceptable level of investment risk and a commensurate rate of return. The plan assets must be invested in a portfolio of diversified securities, according to the investment policy. These investments must be well diversified by industrial sector, based on the industry classification of specific identified indices.

According to the policy, the portfolio can be divided into three large categories of investments: fixed income assets, equity investments and private market investments. The target for fixed income assets is set at 40.0% (40.0% in 2019) of the fair market value of the portfolio. The target for investments in equity should represent approximately 50.0% (50.0% in 2019) of the fair market value of the portfolio: 32.0% in global equity (32.0% in 2019) and 18.0% in Canadian equity (18.0% in 2019). The target for private market investments should represent approximately 10.0% (10.0% in 2019) of the fair market value of the portfolio. The targets exclude the positions from the inflation and provincial credit spread overlay strategies described below. The positioning of the asset mix is reviewed monthly to assess the need for rebalancing.

In fiscal 2020, the Pension Fund introduced the Liability Driven Investing ("LDI") bond portfolio with an inflation overlay. As part of the inflation overlay, repurchase agreements are contracted to fund the purchase of federal real return bonds and reverse repurchase agreements are contracted to obtain the federal nominal bonds to deliver when selling them short. Such repurchase and reverse repurchase positions are rolled over on an annual basis to maintain a synthetic long federal real return bond and short federal nominal bond position which delivers the inflation performance.

(in thousands of Canadian dollars)

20. Net defined benefit asset or liability (continued)

In fiscal 2019, the Fund had a provincial credit spread overlay strategy. As part of this strategy, repurchase agreements were contracted to fund the purchase of provincial bonds and reverse repurchase agreements were contracted to obtain the federal bonds to deliver when selling them short. Such repurchase and reverse repurchase positions were rolled over on a quarterly basis to maintain a synthetic long provincial bond and short federal bond position which delivered the provincial credit spread performance.

In order to reduce the cost of funding, federal real return bonds are used as collateral on the repurchase transactions, and as more collateral is required, provincial bonds may be used.

The significant actuarial assumptions adopted in measuring BDC's defined benefit obligation at year-end are as follows.

	Registered pension plan		Supplemental pension plans		Other plans	
	2020	2019	**2020**	2019	**2020**	2019
Discount rate	**4.25%**	3.40%	**4.25%**	3.40%	**4.25%**	3.40%
Inflation rate	**2.00%**	2.00%	**2.00%**	2.00%	**2.00%**	2.00%
Rate of salary increase	**3.00%**	3.00%	**3.00%**	3.00%	**3.00%**	3.00%
Rate of pension increase	**2.00%**	2.00%	**2.00%**	2.00%	**n/a**	n/a

The average rate of compensation increase is expected to be inflation, plus 0.5% for productivity gains, plus an adjustment for merit and promotion.

The following mortality table was used to determine the present value of the benefit obligation:

> The 2014 Public Sector Mortality Table with mortality improvement Scale CPM-B, from the Canadian Pensioners' Mortality (CPM) study published by the Canadian Institute of Actuaries in February 2014, was used for 2020 and 2019.

As at March 31, 2020, the weighted-average duration of the defined benefit obligation was 16.5 years (2019: 18.1 years). For measurement purposes, health care cost trends were assumed to be as follows:

Medical (drugs)

> 5.67% in 2020 reducing by 0.083% each year to 4.0% in 2040
(5.75% in 2019 reducing by 0.083% each year to 4.0% in 2040)

Other medical costs

> 3.9% per year
(4.0% per year in fiscal 2019)

Dental costs

> 4.0% per year
(4.0% per year in fiscal 2019)

Weighted-average health care trend

> 4.89% in 2020 reducing by 0.047% each year to 3.96% in 2040
(4.89% in 2019 reducing by 0.044% each year to 3.96% in 2040)

(in thousands of Canadian dollars)

20. Net defined benefit asset or liability (continued)

Sensitivity of assumptions

The present value of the defined benefit obligation is calculated, in the following sensitivity analyses, with the same method (the projected unit credit method) as the net defined benefit asset or liability recognized in the Consolidated Statement of Financial Position. The sensitivity analyses are based on a change in one assumption while all other assumptions are held constant. This analysis may not be representative of the actual change in the defined benefit obligation, as it is unlikely that a change in an assumption would occur in isolation; some of the assumptions may be correlated.

			March 31, 2020			March 31, 2019
Increase (decrease) of the present value of the defined benefit obligation	Registered pension plan	Supplemental pension plans	Other plans	Registered pension plan	Supplemental pension plans	Other plans
Discount rate						
Impact of: 1% increase	**(207,786)**	**(18,926)**	**(24,972)**	(247,155)	(22,859)	(31,120)
1% decrease	**274,360**	**24,754**	**32,012**	329,098	29,207	40,390
Rate of salary increase						
Impact of: 1% increase	**32,234**	**10,099**	**438**	39,304	12,178	555
1% decrease	**(31,704)**	**(6,372)**	**(416)**	(38,713)	(8,179)	(524)
Rate of price inflation						
Impact of: 1% increase	**248,734**	**18,589**	**795**	297,944	21,678	1,020
1% decrease	**(193,527)**	**(14,448)**	**(692)**	(230,811)	(17,723)	(879)
Rate of pension increase						
Impact of: 1% increase	**207,155**	**23,489**	**–**	244,753	27,298	–
1% decrease	**(165,158)**	**(16,752)**	**–**	(195,782)	(20,278)	–
Health care cost trend						
Impact of: 1% increase	**–**	**–**	**25,527**	–	–	32,035
1% decrease	**–**	**–**	**(20,369)**	–	–	(25,308)
Post-retirement mortality						
Impact of: 1 year older	**(37,040)**	**(4,006)**	**(5,088)**	(44,077)	(5,218)	(6,689)
1 year younger	**36,731**	**3,961**	**5,185**	43,946	4,402	6,857

21.
Other liabilities

	March 31, 2020	March 31, 2019
Financial instruments, measured at amortized cost		
Deposits from clients	**47,157**	38,590
Expected credit losses on loan commitments	**67,059**	22,465
Other(1)	**1,523**	1,500
	115,739	62,555
Deferred income	**7,469**	7,047
Other(1)	**–**	6,970
Total other liabilities	**123,208**	76,572

(1) All other liabilities are non-current.

(in thousands of Canadian dollars)

22.
Share capital

An unlimited number of common shares, having a par value of $100 each, is authorized. As at March 31, 2020, there were 40,089,000 common shares outstanding (26,029,000 as at March 31, 2019).

As per BDC's Capital Management and Dividend Policy, on the date of approval of the fiscal 2020 Consolidated Financial Statements, no dividend was declared based on fiscal 2020 results and a $128.4 million dividend was paid in fiscal 2020 based on fiscal 2019 results.

In fiscal 2020, 14,060,000 common shares were issued by BDC for $1,406.0 million (1,250,000, for $125.0 million in 2019).

Reconciliation of the number of common shares issued and outstanding

	2020	2019
As at beginning of the year	**26,029,000**	24,779,000
Shares issued	**14,060,000**	1,250,000
As at end of the year	**40,089,000**	26,029,000

23.
Capital management

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, which excludes accumulated other comprehensive income (loss). BDC's ratio as at March 31, 2020 was 2.7:1 (2.9:1 as at March 31, 2019).

In addition, the paid-in capital, the contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments) must at no time exceed $4.5 billion. As at March 31, 2020, these amounts totalled $4.0 billion ($2.6 billion as at March 31, 2019).

During 2020 and 2019, BDC met both of these statutory limitations.

Effective April 22, 2020, the Minister of Finance confirmed that the amount of paid-in-capital, together with any contributed surplus and any proceeds that have been prescribed as equity, must not at any time exceed $15.0 billion per an amendment to the *Business Development Bank of Canada Act, 1995.*

(in thousands of Canadian dollars)

23. Capital management (continued)

Capital adequacy

BDC's capital management framework is outlined in its Capital Management and Dividend Policy and is aligned with:

> BDC's strategy, the Risk Appetite Statement and the Enterprise Risk Management Policy

> The Department of Finance's Capital and Dividend Policy Framework for Financial Crown Corporations

Although BDC is not regulated by the Office of the Superintendent of Financial Institutions (OSFI), it's Capital Management Framework is continuously refined to better align with OSFI's guidelines and relevant industry practices, while accounting for factors unique to BDC's mandate as a financial Crown corporation.

The key principles behind BDC's Capital Management Framework are that:

> BDC has adequate capital to protect itself against risks that could adversely impact its ability to deliver on its mandate and minimize the risk of recapitalization through a complete economic cycle; and

> Capital in excess of BDC's target capital is available to be returned to the shareholder in the form of dividends, at the discretion of BDC's Board of Directors

BDC monitors its capital status by comparing available capital to capital demand.

Available capital based on BDC's internal capital adequacy assessment process (ICAAP) is composed of equity attributable to BDC's shareholder and adjustments aligned with industry practices.

BDC's ICAAP excludes Venture Capital Incentive Programs (VCIP), Cleantech Practice, the Business Credit Availability Program (BCAP), and the capital reserved for the new Indigenous Growth Fund, as these government programs are managed by BDC under a specific capital allocation from the shareholder.

The following table shows BDC's available capital reconciliation:

	March 31, 2020	March 31, 2019
Equity attributable to BDC's shareholder	**8,891,660**	7,714,125
Adjustments to available capital		
AOCI on cash flow hedges	**(3,497)**	(4,622)
Intangible assets, net of accumulated amortization	**(41,525)**	(38,935)
Net defined benefit asset	**(41,781)**	(20,483)
Adjustments for allowance for expected credit losses	**239,520**	(3,191)
Portion of equity attributable to VCIP	**(588,945)**	(475,789)
Portion of equity attributable to Cleantech Practice	**(383,636)**	(117,542)
Portion of equity attributable to BCAP	**(944,000)**	–
Portion of equity attributable to Indigenous Growth Fund	**(50,000)**	–
Available capital	**7,077,796**	**7,053,563**

23. Capital management (continued)

Capital adequacy (continued)

BDC's capital demand represents the capital required to support BDC's risk profile and includes the following three elements:

> Economic Capital quantifies the capital required to cover credit, operational, strategic and market risks;

> Stress Testing Reserve serves to absorb the volatility of an economic downturn while maintaining BDC's financial strength; and

> Venture Capital Reserve is held to account for the need for follow-on investments.

BDC's target capital level also factors in an operating range to mitigate the impact of unplanned capital volatility. It accounts for differences between planned and actual level of activities, as well as volatility in assumptions that are difficult to predict. The operating range allows any excess capital over target capital to be paid as dividends to the shareholder in the following fiscal year, subject to the discretion of the Board of Directors. Refer to Note 22—*Share capital* for information on dividends paid.

BDC's key measure for determining and assessing capital adequacy is its internal capital ratio, which is expressed as the level of available capital over the economic capital required. As set out in BDC's Capital Management and Dividend Policy, different management zones have been established to closely monitor the internal capital ratio through a complete business cycle, which include a risk limit, a tolerance threshold and a targeted level.

On May 5, 2020 the Board of Directors' approved a new capital management framework to ensure effective capital management in alignment with regulatory guidelines (OSFI/Basel) and with other Canadian Financial Institutions. BDC strives to continuously evolve its capital adequacy techniques and measures to better reflect the Bank's inherent risks while integrating industry best practices. The new capital management framework will incorporate changes in both the available capital definition as well as in the required capital quantification. The new framework will be effective next fiscal year.

Available capital

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

Required capital

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

As at March 31, 2020, as per BDC's current Capital Management framework and Dividend Policy, no dividend was declared based on fiscal 2020 results. As per the new Capital Management framework, BDC generated excess capital, however, no additional dividend will be paid due to the economic uncertainties related to the pandemic.

24.

Risk management

Governance

Risk is an inherent feature of the financial sector. BDC has strong risk management practices that emphasize risk identification, risk management, transparency and accountability.

Nature and extent of risks arising from financial instruments

BDC is exposed to the following financial risks: credit risk, market risk and liquidity risk. This note provides the definitions of these risks and describes BDC's risk management policies and risk measurements.

Credit risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty in discharging its contractual commitment or obligation to BDC. For the purposes of credit risk management activities, BDC distinguishes between credit risk arising from asset-backed securities issuers, borrowers and investees, and counterparties to Treasury activities.

Asset-backed securities issuers

The ABS portfolio consists of investment-grade senior and subordinated notes issued by way of private placement. ABS are fully backed by security consisting of portfolios of loans and leases on vehicles and equipment, as well as dealer floor plan loans, for which there is no significant concentration risk.

In order to mitigate the credit risk on the underlying asset portfolio, generally, there are structural or credit protections. Also, the notional value of the subordinated notes does not exceed 10% of the senior notes. In addition, securities purchased must be of a certain grade. At time of purchase, senior notes must be, at a minimum, an implied investment grade. The implied rating is calculated by BDC using the same scale as rating agencies. The rating is derived by evaluating the transaction structure and the credit enhancement supporting the securities.

Subsequently, BDC receives portfolio reports that describe the performance of the securities, along with the cash flows associated with the collateral, in order to evaluate the securities. In addition, BDC uses an internal risk rating system to monitor credit risk.

As at March 31, 2020, and March 31, 2019, none of the notes were past due and none had experienced a deterioration in their credit rating. The maximum exposure to credit risk of ABS is limited to the carrying value of the securities. Refer to Note 11—*Asset-backed securities*, for additional information on this portfolio.

BDC is also exposed to credit risk on its ABS commitments. Maximum exposure to credit risk is limited to the committed amount. Refer to Note 11—*Asset-backed securities* for additional information.

24. Risk management (continued)

Credit risk (continued)

Borrowers and investees

BDC uses a number of policies, directives and procedures to manage credit exposures from loans and investments, which include:

> the use of an internal credit risk rating classification;

> credit policies, guidelines and directives, communicated to officers whose activities and responsibilities include credit granting and risk assessment, which ensure early recognition of problem accounts and immediate implementation of steps to protect BDC's assets;

> independent reviews by Internal Audit of credit valuation, risk classification and credit management procedures, which include reporting the results to senior management, the President and Chief Executive Officer, and the Audit and Conduct Committee;

> approval of larger transactions by the Board Risk Committee and the Board Investment Committee, based on recommendations made by the Credit Risk Committee;

> review and assessment by the Clean Technology Special Committee of all risks associated with the initiative;

> monitoring of portfolio concentrations to protect BDC from being overly concentrated in any one province or industry sector;

> monitoring to ensure that exposure to a single borrower or associated borrowers, unless approved by the Board of Directors, does not represent more than 10% of the shareholder's equity;

> an annual review process to ensure appropriate classification of individual credit facilities;

> the conduct of semi-annual valuations of investments; and

> a watchlist report recording accounts with evidence of weaknesses, as well as an impaired loan report covering loans that show impairment.

The maximum exposure to credit risk from borrowers and investees is limited to the carrying amount of the loans and subordinate financing investments. Refer to Note 10—*Loans* and Note 12—*Subordinate financing investments* for additional information on loans and investment portfolios.

BDC is also exposed to credit risk on its loan commitments and financial guarantees. Maximum exposure to credit risk is limited to the committed amount or, in the case of financial guarantees, to the maximum amount payable under the guarantees. Refer to Note 10—*Loans* and Note 27—*Guarantees and contingent liabilities* for additional information.

Counterparties to Treasury activities

Credit risk inherent to Treasury activities is the risk that BDC faces through the non-performance of a counterparty and the possible event of its default. For the purpose of BDC's Treasury activities, a distinction is made between credit risk arising from investments held in the liquidity portfolio (issuer risk) and credit risk arising from the use of derivative products (counterparty risk).

The notional amounts of derivative financial instruments held by BDC are not indicative of the credit risk exposure associated with the contracts. The risk of loss is related to the possibility that a counterparty to a transaction will not perform as agreed. In the event of default by a counterparty, the risk to BDC in these transactions would be limited to the prevailing market values of transactions that are in an unrealized gain position and uncollateralized.

BDC limits its exposure to credit risk by dealing only with financial institutions that have credit ratings in accordance with the Treasury Risk Policy. As at March 31, 2020, and March 31, 2019, BDC had no significant concentrations in any individual financial institution.

(in thousands of Canadian dollars)

24. Risk management (continued)

Credit risk (continued)

BDC continually monitors its position and the credit ratings of its counterparties, and seeks to limit its credit exposure with respect to contracts in a favorable position by entering into master netting agreements with counterparties.

Counterparty credit risk exposure	Counterparty ratings		
	AA- to AA+	A- to A+	Total
Gross positive replacement cost	4,252	8,104	12,356
Impact of master netting agreements	–	(4,151)	(4,151)
Replacement cost (after master netting agreements)—March 31, 2020	**4,252**	**3,953**	**8,205**
Replacement cost (after master netting agreements)—March 31, 2019	5,337	3,941	9,278
Number of counterparties			
March 31, 2020	**2**	**5**	**7**
March 31, 2019	1	5	6

Lastly, to manage the credit risk arising from an issuer of cash equivalents, the Treasury Risk Management Unit ensures the liquidity portfolio is composed of securities issued or guaranteed by entities that have a minimum credit rating of A.

The following table sets out information about the credit quality of cash and cash equivalents.

Counterparty rating	**March 31, 2020**	March 31, 2019
Rated AA- to AA+	**263,548**	212,374
Rated A- to A+	**1,557,849**	491,606
Cash and cash equivalents	**1,821,397**	703,980

Market risk

Market risk is the risk of incurring losses as a result of changes in market factors, such as interest rates, foreign exchange rates, the prices of equities or commodities, or other relevant market factors. Market risk for BDC also arises from volatile unpredictable market events affecting the value of venture capital investments.

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. For BDC, the risk and potential variability in earnings arise primarily when cash flows associated with interest-sensitive assets and liabilities have different repricing dates. A positive interest rate gap exists when interest-sensitive assets exceed interest-sensitive liabilities for a specific maturity or repricing period. A positive gap will result in an increase in net interest income when market interest rates rise, since assets reprice earlier than liabilities. The opposite impact will occur when market interest rates fall. As set out in the Treasury Risk Policy, BDC manages market risk by matching the terms of assets and liabilities. As a result, BDC structured notes are economically hedged, using derivatives, to eliminate market risks (refer to Note 9—*Derivative financial instruments*, for additional information).

To manage the interest rate gap on its interest-sensitive assets and interest-sensitive liabilities, BDC establishes policy guidelines for interest rate gap positions, regularly monitors the Bank's situation and decides future strategies in light of changing market conditions. The objective is to manage the interest rate risk using sound and prudent guidelines. Interest rate risk policies included in the Treasury Risk Policy are approved and reviewed at least annually by the Board of Directors.

(in thousands of Canadian dollars)

24. Risk management (continued)

Market risk (continued)

Interest rate risk (continued)

Exposure to interest rate risk is controlled by managing the size of the static gap positions between interest-sensitive assets and interest-sensitive liabilities. Gap analysis is supplemented by scenario analysis of the asset liability portfolio structure and by a duration analysis. The interest rate gap is measured daily.

Exposure to interest rate risk is also monitored using a net interest income sensitivity stress test. A parallel and sustainable 200-basis-point shock on the Canadian yield curve is simulated and the impact on net interest income has to be less than 10%. The following table discloses the 12-month net interest income sensitivity stress test:

	March 31, 2020		March 31, 2019	
	200 basis points in interest rate		200 basis points in interest rate	
	Increase	Decrease	Increase	Decrease
Net interest income sensitivity	**33,600**	**(33,600)**	5,600	(5,600)
Net interest income sensitivity (%)	**2.69**	**(2.69)**	0.47	(0.47)

The following tables summarize BDC's interest rate sensitivity position based on the difference between the carrying value of assets and the carrying value of liabilities and equity, grouped by the earlier of contractual repricing or maturity date. This gap analysis is a static measurement of interest rate-sensitive gaps at a specific time. These gaps can change significantly in a short period of time.

	Immediately rate-sensitive	Within 3 months(1)	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive(2)	Allowance and fair value	Total
Assets								
Cash and cash equivalents	**1,796,411**	**24,986**	**–**	**–**	**–**	**–**	**–**	**1,821,397**
Derivative assets	**–**	**8,515**	**–**	**–**	**–**	**3,841**	**–**	**12,356**
Loans	**15,723,624**	**798,353**	**759,643**	**7,330,001**	**2,799,047**	**1,061,593**	**(1,199,173)**	**27,273,088**
Asset-backed securities	**–**	**–**	**–**	**103,657**	**668,759**	**–**	**5,422**	**777,838**
Subordinate financing investments	**531,775**	**10,703**	**19,019**	**318,377**	**167,983**	**345,786**	**(153,055)**	**1,240,588**
Venture capital investments	**–**	**–**	**–**	**–**	**–**	**1,481,623**	**239,513**	**1,721,136**
Other	**–**	**–**	**–**	**–**	**–**	**306,955**	**–**	**306,955**
	18,051,810	**842,557**	**778,662**	**7,752,035**	**3,635,789**	**3,199,798**	**(1,107,293)**	**33,153,358**
Liabilities and equity								
Derivative liabilities	**–**	**–**	**–**	**–**	**–**	**16,125**	**–**	**16,125**
Short-term notes	**–**	**19,362,224**	**–**	**–**	**–**	**–**	**–**	**19,362,224**
Long-term notes	**–**	**–**	**3,447**	**3,174,531**	**1,029,088**	**–**	**–**	**4,207,066**
Other	**–**	**–**	**–**	**–**	**–**	**665,144**	**–**	**665,144**
Total equity	**–**	**–**	**–**	**–**	**–**	**8,902,799**	**–**	**8,902,799**
	–	**19,362,224**	**3,447**	**3,174,531**	**1,029,088**	**9,584,068**	**–**	**33,153,358**
Total gap position before derivatives								
March 31, 2020	**18,051,810**	**(18,519,667)**	**775,215**	**4,577,504**	**2,606,701**	**(6,384,270)**	**(1,107,293)**	**–**
March 31, 2019	17,773,518	(19,425,413)	789,236	3,946,660	2,542,031	(5,585,743)	(40,289)	–
Total derivative position	**–**	**(126,693)**	**2,554**	**124,139**	**–**	**–**	**–**	**–**
Total gap position March 31, 2020	**18,051,810**	**(18,646,360)**	**777,769**	**4,701,643**	**2,606,701**	**(6,384,270)**	**(1,107,293)**	**–**
Total gap position March 31, 2019	17,773,518	(19,552,106)	789,236	4,073,353	2,542,031	(5,585,743)	(40,289)	–

(1) This grouping includes asset-backed securities, short-term notes and long-term notes for which interest rates reset monthly. The short-term notes and long-term notes are used to fund floating-rate assets, the majority of which are categorized as immediately rate sensitive.

(2) Assets, liabilities and equities that are non-rate sensitive have no specific maturity.

(in thousands of Canadian dollars)

24. Risk management (continued)

Market risk (continued)

Foreign exchange risk

Foreign exchange risk arises when there is a difference between assets and liabilities held in foreign currencies. Foreign exchange risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. BDC's policy and practice is to economically hedge borrowings, subordinate financing investments and loans in foreign currencies so that the residual exposure to foreign exchange risk is not significant. Venture capital investments are hedged following the occurrence of a liquidity event. Refer to Note 9—*Derivative financial instruments*, for more information.

Venture capital market risk

Unpredictable financial markets, as well as the presence and appetite of buyers, dictate the timing of venture capital divestitures. This timing, in turn, affects the value of BDC venture capital investments. To manage this risk, BDC uses a rigorous selection process of investments and works closely with its investee companies. BDC also lowers the risk of its venture capital investments by applying conservative valuations when purchasing participation in a company, co-investing with other venture capital investors and monitoring investments regularly.

Management reviews all transactions. Larger investment transactions that exceed delegations residing with management are recommended by management to the Board Investment Committee who, in turn, may recommend onto the Board, as required. Other transactions will be recommended for review by the Board Risk Committee directly by the Executive Vice President and Chief Risk Officer.

Liquidity risk

Liquidity risk is the risk resulting from the difficulty in converting BDC's assets into cash for the purpose of servicing and refinancing its debt, for the timely disbursement of its committed loans and investments and for payment of its operating expenses and dividends.

The following tables detail contractual maturities of financial liabilities and commitments, and are based on notional amounts, which may differ from carrying values.

	Within 1 year	1 to 5 years	Over 5 years	No fixed maturity	Total
Accounts payable and accrued liabilities	**112,778**	**45,514**	–	–	**158,292**
Derivative liabilities[1]	–	–	–	–	–
Short-term notes[2]	**19,379,968**	–	–	–	**19,379,968**
Long-term notes[2]	**105,134**	**3,695,421**	**739,038**	–	**4,539,593**
Other financial liabilities	**48,680**	–	–	–	**48,680**
	19,646,560	**3,740,935**	**739,038**	–	**24,126,533**
Commitments					
Loans	**3,074,649**	–	–	–	**3,074,649**
Asset-backed securities[3]	**238,489**	–	–	–	**238,489**
Subordinate financing investments	**176,322**	–	–	–	**176,322**
Venture capital investments[4]	–	–	–	**845,470**	**845,470**
	3,489,460	–	–	**845,470**	**4,334,930**
Total as at March 31, 2020	**23,136,020**	**3,740,935**	**739,038**	**845,470**	**28,461,463**

(1) Derivative liabilities reflect the interest payments to maturity of derivatives.
(2) Short-term and long-term notes reflect the future payments that will be paid as per the contractual note agreements.
(3) Commitments are presented at the earliest possible liquidity event.
(4) Commitments are mainly related to participation in funds in which BDC legally committed to invest. Timing of investments will vary, depending on funds' investment requirements, and should occur over the next several years.

(in thousands of Canadian dollars)

24. Risk management (continued)

Liquidity risk (continued)

	Within 1 year	1 to 5 years	Over 5 years	No fixed maturity	Total
Accounts payable and accrued liabilities	96,387	45,025	–	–	141,412
Derivative liabilities[1]	–	–	–	–	–
Short-term notes[2]	21,095,936	–	–	–	21,095,936
Long-term notes[2]	48,189	1,527,858	62,106	–	1,638,153
Other financial liabilities	40,090	–	–	–	40,090
	21,280,602	1,572,883	62,106	–	22,915,591
Commitments					
Loans	3,398,260	–	–	–	3,398,260
Asset-backed securities[3]	299,269	–	–	–	299,269
Subordinate financing investments	201,066	–	–	–	201,066
Venture capital investments[4]	–	–	–	756,465	756,465
Leases	31,308	100,538	201,879	–	333,725
	3,929,903	100,538	201,879	756,465	4,988,785
Total as at March 31, 2019	25,210,505	1,673,421	263,985	756,465	27,904,376

(1) Derivative liabilities reflect the interest payments to maturity of derivatives.
(2) Short-term and long-term notes reflect the future payments that will be paid as per the contractual note agreements.
(3) Commitments are presented at the earliest possible liquidity event.
(4) Commitments are mainly related to participation in funds in which BDC legally committed to invest. Timing of investments will vary, depending on funds' investment requirements, and should occur over the next several years.

A lack of marketability could make it expensive or even impossible to liquidate the securities held by BDC, which could also compromise the short-term continuity of normal business. To avoid any liquidity-related disruptions, BDC ensures that cash is invested in highly liquid and high-quality securities that can be sold to a wide range of counterparties without incurring a substantial discount.

BDC's liquidity risk management objective is to mitigate this risk by:

> providing for a minimum level of short-term assets over short-term liabilities to cover commitment, market, systemic and operational risks;

> minimizing the unproductive cash balance in the cash account; and

> achieving a return on liquid assets in excess of cost while protecting BDC's capital.

The Treasury Risk Policy establishes risk tolerance parameters, provides delegation of authority to BDC's Treasury Department to transact in approved products and provides limits related to specific measures. The policy governs management, measurement, monitoring and reporting requirements related to liquidity. Paragraph 18(3) of the BDC Act defines the instruments in which BDC may invest its liquidity.

24. Risk management (continued)

Liquidity risk (continued)
BDC's liquidity management practices and processes reinforce its risk mitigation strategies by assigning prudent liquidity levels, concentration requirements and maturity profile requirements, as outlined below:

> The minimum liquidity level covers at least the net outflows scheduled for the next five working days. The maximum liquidity level is not to exceed 30 days of net cash outflows.

> The maturity profile requires 75% of the total liquidity to be invested in securities maturing within 100 days.

> The concentration profile requires that no more than 50% of the portfolio be invested in securities issued or guaranteed by Canadian provinces.

At the end of fiscal 2020, BDC's Treasury Risk Policy was amended to raise the maximum liquidity level from 15 to 30 days to cover for the higher operational and funding risks and ensure the level of liquidity is sufficient in response to major disruptions during the COVID-19 pandemic.

The cash and cash equivalents received from derivative counterparties to cover credit risk exposure as per the Credit Support Annex of the International Swap and Derivatives Association agreements are not included in the liquidity level and limits. As of March 31, 2020, the carrying amount of these items of collateral was $1,187 ($1,127 at March 31, 2019).

The following tables show the results of BDC's liquidity risk management.

Liquidity level (in millions of Canadian dollars)

	Minimum	Actual	Maximum
As at March 31, 2020	**32**	**1,771**	**2,957**
As at March 31, 2019	147	650	1,194

Maturity and concentration limits	Limits	**March 31, 2020**	March 31, 2019
Cash and cash equivalents maturing within 100 days	Min 75%	**100%**	100%
Cash and cash equivalents in Canadian provinces	Max 50%	**0%**	0%

The Treasury Risk Management Unit identifies, measures and monitors these liquidity limits daily. It reports any deviations from these liquidity limits to the Board of Directors. The Treasury Risk Management Unit determines whether the limits remain valid or whether changes to assumptions and limits are required in light of internal or external developments. This process ensures that close links are maintained between liquidity, market and credit risks.

(in thousands of Canadian dollars)

25.

Additional information on the Consolidated Statement of Income (Loss)

Additional information on financial instruments

	FVTPL and designated at FVTPL	FVOCI	Amortized Cost	Total
				2020
Interest income[(1)(2)]	**109,568**	**19,591**	**1,634,674**	**1,763,833**
Interest expense[(3)]	**2,145**	**–**	**364,376**	**366,521**
Fee and other income	**49,733**	**(7)**	**22,383**	**72,109**

(1) Interest income includes $63,861 for impaired loans in 2020.
(2) The interest income on the financial assets measured at FVOCI and amortized cost are calculated using the effective rate method.
(3) The interest expense on financial liabilities measured at amortized cost is calculated using the effective rate method.

	FVTPL and designated at FVTPL	FVOCI	Amortized Cost	Total
				2019
Interest income[(1)(2)]	98,688	14,456	1,493,725	1,606,869
Interest expense[(3)]	2,199	–	287,294	289,493
Fee and other income	22,663	22	20,629	43,314

(1) Interest income includes $49,689 for impaired loans in 2019.
(2) The interest income on the financial assets measured at FVOCI and amortized cost are calculated using the effective rate method.
(3) The interest expense on financial liabilities measured at amortized cost is calculated using the effective rate method.

	FVTPL	Designated as at FVTPL	FVOCI	Amortized cost	Total
					2020
Total gains (losses)					
Net realized gains (losses) on investments	**248,073**	**–**	**–**	**–**	**248,073**
Net change in unrealized appreciation (depreciation) of investments	**(541,225)**	**–**	**–**	**–**	**(541,225)**
Net realized foreign exchange gains (losses) on assets	**98**	**–**	**27**	**7,158**	**7,283**
Net unrealized foreign exchange gains (losses) on assets	**39,293**	**–**	**242**	**24,430**	**63,965**
Net realized foreign exchange gains (losses) on foreign exchange forward contracts	**(28,127)**	**–**	**–**	**–**	**(28,127)**
Net unrealized foreign exchange gains (losses) on foreign exchange forward contracts	**(7,019)**	**–**	**–**	**–**	**(7,019)**
Net foreign exchange gains (losses)	**4,245**	**–**	**269**	**31,588**	**36,102**
Net realized gains (losses) on other financial instruments	**1,125**	**–**	**–**	**–**	**1,125**
Net unrealized gains (losses) on other financial instruments	**(1,421)**	**572**	**–**	**(60)**	**(909)**
Net gains (losses) on other financial instruments	**(296)**	**572**	**–**	**(60)**	**216**
	(289,203)	**572**	**269**	**31,528**	**(256,834)**

(in thousands of Canadian dollars)

25. Additional information on the Consolidated Statement of Income (Loss) (continued)

Additional information on financial instruments (continued)

					2019
	FVTPL	Designated as at FVTPL	FVOCI	Amortized Cost	Total
Total gains (losses)					
Net realized gains (losses) on investments	37,181	–	–	–	37,181
Net change in unrealized appreciation (depreciation) of investments	225,668	–	–	–	225,668
Net realized foreign exchange gains (losses)on assets	413	–	8	3,778	4,199
Net unrealized foreign exchange gains (losses) on assets	25,305	–	207	13,253	38,765
Net realized foreign exchange gains (losses) on foreign exchange forward contracts	(20,909)	–	–	–	(20,909)
Net unrealized foreign exchange gains (losses) on foreign exchange forward contracts	(4,975)	–	–	–	(4,975)
Net foreign exchange gains (losses)	(166)	–	215	17,031	17,080
Net realized gains (losses) on other financial instruments	2,111	–	–	–	2,111
Net unrealized gains (losses) on other financial instruments	(2,576)	1,640	–	–	(936)
Net gains (losses) on other financial instruments	(465)	1,640	–	–	1,175
	262,218	1,640	215	17,031	281,104

Other additional information

	2020	2019
Salaries and benefits		
Salaries and other benefits	**376,837**	344,316
Defined benefit plan expense (Note 20)	**75,594**	65,887
	452,431	410,203
Other expenses		
Professional and outsourcing fees	**94,934**	61,827
Computers and software, including amortization and depreciation	**44,011**	36,629
Communications, advertising and promotion	**24,467**	24,108
Other	**25,860**	24,574
	189,272	147,138

26.
Segmented information

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

Venture Capital Incentive Programs combines the former Venture Capital Action Plan (VCAP) segment activities with Venture Capital Catalyst Initiative (VCCI).

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.

> **Growth & Transition Capital** provides subordinate financing by way of flexible debt, with or without convertible features, and equity-type financing.

> **Venture Capital** provides investments to cover every stage of a technology-based company's development cycle, from seed funding to expansion. BDC also makes indirect investments via venture capital investment funds.

> **Venture Capital Incentive Programs**: VCAP 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 provides late-stage venture capital to support the growth of innovative start-ups.

> **Cleantech Practice** provides subordinate financing and venture capital investments to promising clean technology firms.

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 to the economic risks of each specific business segment. Refer to Note 23—*Capital management*, for more information.

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.

(in thousands of Canadian dollars)

26. Segmented information (continued)

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.

							March 31, 2020
	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice
Interest income	**1,763,833**	**1,656,496**	–	**101,989**	–	–	**5,348**
Interest expense	**366,521**	**355,851**	–	**10,670**	–	–	–
Net interest income	**1,397,312**	**1,300,645**	–	**91,319**	–	–	**5,348**
Net realized gains (losses) on investments	**248,073**	–	–	**(5,064)**	**252,606**	**531**	–
Revenue from Advisory Services	**29,236**	–	**29,236**	–	–	–	–
Fee and other income	**72,109**	**22,677**	–	**32,526**	**10,903**	**2,109**	**3,894**
Net revenue (loss)	**1,746,730**	**1,323,322**	**29,236**	**118,781**	**263,509**	**2,640**	**9,242**
Provision for expected credit losses	**(772,511)**	**(772,511)**	–	–	–	–	–
Net change in unrealized appreciation (depreciation) of investments	**(541,225)**	**1,725**	–	**(90,710)**	**(361,676)**	**(73,328)**	**(17,236)**
Net foreign exchange gains (losses)	**36,102**	**(2,546)**	–	**404**	**37,004**	**862**	**378**
Net gains (losses) on other financial instruments	**216**	**216**	–	–	–	–	–
Income (loss) before operating and administrative expenses	**469,312**	**550,206**	**29,236**	**28,475**	**(61,163)**	**(69,826)**	**(7,616)**
Salaries and benefits	**452,431**	**328,743**	**52,580**	**38,400**	**28,676**	**1,085**	**2,947**
Premises and equipment	**45,608**	**36,675**	**4,279**	**2,388**	**1,831**	**218**	**217**
Other expenses	**189,272**	**152,735**	**19,184**	**5,523**	**10,295**	**961**	**574**
Operating and administrative expenses	**687,311**	**518,153**	**76,043**	**46,311**	**40,802**	**2,264**	**3,738**
Net income (loss)	**(217,999)**	**32,053**	**(46,807)**	**(17,836)**	**(101,965)**	**(72,090)**	**(11,354)**
Net income (loss) attributable to:							
BDC's shareholder	**(193,018)**	**32,053**	**(46,807)**	**(17,006)**	**(77,814)**	**(72,090)**	**(11,354)**
Non-controlling interests	**(24,981)**	–	–	**(830)**	**(24,151)**	–	–
Net income (loss)	**(217,999)**	**32,053**	**(46,807)**	**(17,836)**	**(101,965)**	**(72,090)**	**(11,354)**
Business segment portfolio as at March 31, 2020							
Loans, net of allowance for expected credit losses	**27,273,088**	**27,273,088**	–	–	–	–	–
Asset-backed securities	**777,838**	**777,838**	–	–	–	–	–
Subordinate financing investments	**1,240,588**	**12,540**	–	**1,114,174**	–	–	**113,874**
Venture capital investments	**1,721,136**	–	–	–	**1,295,902**	**419,273**	**5,961**
Total portfolio	**31,012,650**	**28,063,466**	–	**1,114,174**	**1,295,902**	**419,273**	**119,835**

(in thousands of Canadian dollars)

26. Segmented information (continued)

							March 31, 2019
	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice
Interest income	1,606,869	1,510,320	–	94,203	–	–	2,346
Interest expense	289,493	280,963	–	8,530	–	–	–
Net interest income	1,317,376	1,229,357	–	85,673	–	–	2,346
Net realized gains (losses) on investments	37,181	–	–	14,594	22,587	–	–
Revenue from Advisory Services	25,072	–	25,072	–	–	–	–
Fee and other income	43,314	21,089	21	19,642	1,773	281	508
Net revenue (loss)	1,422,943	1,250,446	25,093	119,909	24,360	281	2,854
Provision for expected credit losses	(179,915)	(179,915)	–	–	–	–	–
Net change in unrealized appreciation (depreciation) of investments	225,668	1,401	–	(4,740)	179,374	55,401	(5,768)
Net foreign exchange gains (losses)	17,080	(6,126)	–	496	22,651	205	(146)
Net gains (losses) on other financial instruments	1,175	1,175	–	–	–	–	–
Income (loss) before operating and administrative expenses	1,486,951	1,066,981	25,093	115,665	226,385	55,887	(3,060)
Salaries and benefits	410,203	298,267	51,400	35,140	21,599	931	2,866
Premises and equipment	44,008	35,286	4,482	2,217	1,708	107	208
Other expenses	147,138	112,156	18,991	4,868	8,931	1,759	433
Operating and administrative expenses	601,349	445,709	74,873	42,225	32,238	2,797	3,507
Net income (loss)	885,602	621,272	(49,780)	73,440	194,147	53,090	(6,567)
Net income (loss) attributable to:							
BDC's shareholder	878,482	621,272	(49,780)	68,896	191,571	53,090	(6,567)
Non-controlling interests	7,120	–	–	4,544	2,576	–	–
Net income (loss)	885,602	621,272	(49,780)	73,440	194,147	53,090	(6,567)
Business segment portfolio as at March 31, 2019							
Loans, net of allowance for expected credit losses	25,916,222	25,916,222	–	–	–	–	–
Asset-backed securities	700,343	700,343	–	–	–	–	–
Subordinate financing investments	1,152,182	12,081	–	1,082,280	–	–	57,821
Venture capital investments	2,027,778	–	–	–	1,566,227	461,551	–
Total portfolio	29,796,525	26,628,646	–	1,082,280	1,566,227	461,551	57,821

27.

Guarantees and contingent liabilities

Financial guarantees

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 (Loss). The maximum contractual obligation under the guarantees totalled $11.1 million as at March 31, 2020 ($38.6 million as at March 31, 2019) and the existing terms expire within 115 months (within 127 months as at March 31, 2019). The actual exposure as at March 31, 2020, was $11.1 million ($28.2 million as at March 31, 2019).

These financial guarantees were initially recognized at fair value on the date the guarantees were given. The fair value was considered nil, as all guarantees were agreed to on arm's-length terms and no initial fee was received. In addition, no receivable for the future expected fees was recognized. Subsequent recognition of a liability will only occur when it becomes more likely than not that a client will not meet its contractual commitments. As at March 31, 2020 and March 31, 2019 there were no liabilities recognized in BDC's Consolidated Statement of Financial Position related to these guarantees.

Indemnification agreements

In the ordinary course of business, BDC enters into many contracts that contain indemnification provisions, such as purchase contracts, employment contracts, service agreements and leasing arrangements. In such contracts, BDC may indemnify counterparties to the contracts for certain aspects of BDC's past conduct if other parties fail to perform, or if certain events occur, such as changes in laws and regulations (including tax legislation), changes in the financial condition of third parties, infringements and breaches of representations and warranties, undisclosed liabilities, and loss caused by the actions of third parties, or as a result of litigation claims by third parties.

These indemnification obligations vary based upon each contract. In many cases, there are no predetermined amounts or limits included in these contracts, and the occurrence of contingent events that triggers payment under them is difficult to predict. The nature of these indemnification contracts is such that BDC cannot reasonably estimate the maximum potential future amount that may be payable to counterparties. Historically, BDC has not made any significant payments under these indemnities and there were no significant provisions for indemnities as at March 31, 2020, and March 31, 2019.

Contingent liabilities

Various legal proceedings arising from the normal course of business are pending against BDC. Management believes that should BDC be found liable pursuant to one or more of these proceedings, the aggregate liability resulting from such proceedings would not be material.

(in thousands of Canadian dollars)

28.
Related party transactions

BDC is a Crown corporation that is wholly owned by the Government of Canada and is accountable for its affairs through the Minister of Small Business, Export Promotion and International Trade. 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.

The defined benefit plans referred to in Note 20—*Net defined benefit asset or liability*, are also related parties. BDC's transactions with these funds include contributions paid to the plans, which are disclosed in Note 20. BDC has no other transactions or balances related to these defined benefit plans.

Borrowings with the Minister of Finance

During the reporting periods, BDC has borrowed funds from Her Majesty the Queen in Right of Canada acting through the Minister of Finance. This borrowing is in accordance with the FAA and the BDC Act and is compliant with (i) BDC's borrowing plan, which is approved by the Minister of Finance, and (ii) the Crown Borrowing Program Framework.

The following table shows the transactions and outstanding balances related to the borrowings with the Minister of Finance. Refer to Note 19—*Borrowings*, for additional information on short-term and long-term notes.

	Short-term notes		Long-term notes		Total	
	2020	2019	**2020**	2019	**2020**	2019
Balance at beginning of year	**20,950,785**	20,480,059	**1,306,622**	–	**22,257,407**	20,480,059
Net change in short-term notes	**(1,585,000)**	465,000	**–**	–	**(1,585,000)**	465,000
Net changes in accrued interest	**(9,448)**	5,726	**9,710**	6,622	**262**	12,348
Issuance of long-term notes	**–**	–	**2,755,000**	1,300,000	**2,755,000**	1,300,000
Repayment of long-term notes	**–**	–	**–**	–	**–**	–
Balance at end of year	**19,356,337**	20,950,785	**4,071,332**	1,306,622	**23,427,669**	22,257,407

During the year, BDC recorded $371.5 million in interest expense related to these borrowings ($299.3 million in 2019). In addition, $325.0 million in borrowings with the Minister of Finance were repurchased in 2020. These transactions did not result in any gains or losses for fiscal 2020 (no borrowings were repurchased in fiscal 2019).

(in thousands of Canadian dollars)

28. Related party transactions (continued)

Key management personnel

Key management personnel are defined as those officers having authority and responsibility for planning, directing and controlling the activities of BDC, including members of the Board of Directors. The following table shows the compensation expense of key management personnel.

	2020	2019
Salaries and short-term employee benefits	**6,455**	5,961
Post-employment benefits	**1,474**	1,496
Other long-term benefits	**1,269**	1,596
Total	**9,198**	9,053

As at March 31, 2020, there were no loan or investment made to a BDC client with respect to which a member of the Board of Directors or a BDC officer either owns an interest in, or is a director or officer of the client.

Subsidiaries and associates

The relationship between BDC and its subsidiaries meets the definition of a related party. All transactions between the Bank and its subsidiaries have been eliminated on consolidation, and as such are not disclosed as related party transactions.

In the normal course of business, BDC provides certain services to associates, including equity-type financing and investments. These transactions meet the definition of related party transactions and are made on terms equivalent to those that prevail in arm's-length transactions. Refer to Note 2—*Basis of preparation*, for more information on associates.

29.

Uncertainties related to COVID-19

The outbreak of a novel and highly contagious form of Coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous deaths, adversely impacting global commercial activity and contributing to significant ongoing volatility and declines in the global financial markets. The Consolidated Financial Statements of BDC prepared as of, and for the year ended March 31, 2020 reflect the impacts resulting from COVID-19 to the extent known at the reporting date.

Corporate Governance

At BDC, we have established a robust and effective corporate governance structure to maintain the confidence and trust of our most important stakeholders: entrepreneurs, employees, the public and our shareholder.

We achieve high standards of governance through a clear understanding of our mandate, well-defined roles, strong leadership and alignment of our corporate governance framework from the board level to the operational level.

BDC's corporate governance framework

Federal statutes and Treasury Board guidelines

The *Business Development Bank of Canada Act* sets out BDC's purpose, powers and mandate. The *Financial Administration Act* sets out the control regime for Crown corporations, including strategic planning and financial accountability. BDC's by-laws prescribe the rules that govern the functioning of the Bank.

We look to the Treasury Board of Canada Secretariat for guidance on public sector governance practices. BDC meets all of the governance standards recommended by Treasury Board. We also regularly benchmark ourselves against corporate governance and risk management best practices in the financial services sector, and update our corporate governance framework as appropriate.

Board governance

Our board sets BDC's strategic direction and holds senior management accountable for achieving BDC's statutory mandate while respecting our complementary role. Our board's mandate, the Board Code of Conduct and board committees' charters define the board's corporate governance framework, oversight responsibilities, stewardship role and decision-making authority.

The expertise, integrity and commitment to ethical business conduct of our board members allows them to transform principles into action and build trust amongst our stakeholders. Together, our board members have the required mix of skills and experience needed to guide management in delivering on BDC's mandate. They bring a diverse range of perspectives that helps us to support our clients' goals and aspirations.

The board committees do indepth work in their areas of responsibility and provide regular reports to the board on the activities and performance of the Bank. The board and its committees regularly assess their effectiveness; members perform peer-to-peer evaluations; and management assesses the board. Except for the President and CEO, all board members are independent. The segregated roles and responsibilities of the Chairperson of the Board and the President and CEO reflect best practices. There is extensive communication and collaboration between board members and senior management in an environment of respect.

The board and its committees hold in camera sessions, as needed, with the heads of the oversight functions and with auditors. They also regularly meet in the absence of management.

Compliance

The Chief Compliance Officer oversees the design and effectiveness of internal controls and is also responsible for obtaining certification of compliance from leaders of the Bank's business lines. In addition, the compliance team defines measures for the identification, management and protection of critical information.

Risk management

BDC's core challenge is to carry out its role as a development bank that supports entrepreneurs while prudently managing risk and remaining financially sustainable. The board works closely with management to instill and monitor an appropriate risk culture. BDC continues to refine its risk management framework under the leadership of the Chief Risk Officer who is responsible for the effectiveness of risk management and risk oversight functions.

Transparency and conduct review
BDC board members, executives and employees are committed to the highest standards of business ethics and corporate governance. The board provides oversight of conduct review. Our operations and activities are characterized by an open and ethical culture. The Board Code of Conduct and the Employee Code of Conduct, Ethics and Values are regularly updated to ensure they provide ethical guidance at all levels of our organization. Board members, employees and consultants declare annually that they have read, understood and complied with our codes of conduct. These codes are reinforced by governance documents on personal securities trading, disclosure of wrongdoing, anti-fraud, anti-money laundering, anti-terrorism financing and respect for sanctions.

Robust processes are in place to manage conflicts of interest. Any loan or investment made to a company with respect to which a board member or officer has declared an interest is approved by a committee of the board.

Such transactions are disclosed in BDC's Annual Report in compliance with the *BDC Act*.

Government oversight
Each year, Parliament receives an update on BDC's five-year Corporate Plan, which has been approved by the board, the Treasury Board of Canada Secretariat and the Minister of Small Business, Export Promotion and International Trade. Parliament also receives BDC's Annual Report. It contains our Consolidated Financial Statements, which have been audited by both the Auditor General of Canada and an external audit firm.

At 10-year intervals, the Minister of Small Business, Export Promotion and International Trade reviews the provisions and operation of the *BDC Act* in consultation with the Minister of Finance. The next review to begin in 2020.

Highlights of the year

During fiscal 2020, BDC continued to focus on creating better business journeys for entrepreneurs, improving client experience, helping businesses to scale up and innovate, and filling key market gaps.

The board oversaw the increasing use of artificial intelligence in support of BDC's digital transformation. Investments in our eFirst initiative bore fruit with strong growth achieved in online financing, use of mobile applications and entrepreneur traffic to our Virtual Business Centre. We succeeded in processing more loans more quickly. The board also received reports on the evolution of our core IT assets to ensure their performance supports the Bank's ability to achieve its mandate.

The compliance team focused on implementing controls to better manage privacy and confidentiality. It completed an inventory of critical data and implemented enhanced governance over data management and protection. The Bank hired a Chief Data Officer whose duties include developing a data governance model to support BDC's efforts to have a greater impact on more entrepreneurs.

BDC stepped in to support entrepreneurs in an unprecedented way during the COVID-19 crisis. At the request of the federal government, we agreed to administer the Business Credit Availability Program beginning in the fourth quarter and also implemented other measures to meet the urgent needs of entrepreneurs for financial support. Our investments in technology paid off when we were able to quickly invoke our business continuity plan, and close offices, transition employees to working remotely and respond to a massive increase in financing requests from entrepreneurs. Once again, BDC was there for Canada's small and medium-sized businesses when they needed us most.

Governance highlights

During the year, three new directors joined the board: Cathy Bennett, Suzanne Trottier and Abdullah Snobar. They bring perspectives on, respectively, women entrepreneurs, Indigenous issues and the venture capital ecosystem. Claude Mc Master and Nancy Laird left the board after each serving four years. We thank them for their public service and contributions to supporting management in achieving BDC's mandate.

Under the leadership of the Chairperson of the Board, Mike Pedersen, the board focused in particular on talent, culture and conduct during a time of rapid change stemming from our digital transformation. The board increased its emphasis on conduct review with the Audit Committee being renamed to the Audit and Conduct Committee and its charter modified to highlight the importance of this activity.

The board received extensive training on capital management and adequacy, and, in turn, provided guidance to management on stress testing models to prepare for potential economic disruption.

The board supported management's focus on adoption of technology by employees and enhanced online tools for clients. These efforts proved to be prescient when the COVID-19 crisis caused widespread economic disruption and BDC was called on by the Government of Canada to increase online financing for entrepreneurs.

The board and management acted swiftly to convene and approve a package of COVID-19 relief measures for entrepreneurs. The Bank's cooperation with chartered banks in deploying co-lending and guarantee programs, as well as co-investment support for venture capital funds, illustrated BDC's critical role in supporting small and medium-sized businesses across Canada in difficult times.

Board mandate

The board is responsible for the following:

> approving BDC's strategic direction and Corporate Plan to meet its public policy mandate

> overseeing BDC's talent, culture and conduct review

> setting performance targets and monitoring progress

> approving the risk appetite framework, which includes the risk appetite statement, to ensure BDC is identifying and managing its risks properly

> ensuring the highest standards of corporate governance and board effectiveness are respected

> approving compensation policies and ensuring they are aligned with BDC's risk appetite

> reviewing and approving management's succession plan, which includes approving appointments to the senior management team

> setting the President and CEO's performance objectives and evaluating his performance

> reviewing BDC's financial matters and internal controls

> overseeing communications and public disclosures

> overseeing BDC's pension plans, including establishing their funding policies and practices

> approving financing and investment activities beyond management's authority, and overseeing financial and advisory services

> ensuring the complementarity of BDC's market approach and activities

1 Committees

Audit and Conduct Committee

Chairperson Brian O'Neil **Number of meetings** 6	**Members** Michael Calyniuk Vijay Kanwar Abdullah Snobar Suzanne Trottier

This committee promotes an overall corporate culture of quality financial reporting and ethical behaviour. Its main duties are as follows:

> review and advise the board on annual and quarterly Consolidated Financial Statements before disclosure in accordance with accounting principles

> review the integrity, adequacy and effectiveness of the internal control framework, information management systems, and, in particular, controls related to major IT, accounting and financial reporting systems

> provide primary oversight of conduct review, including BDC's standards of integrity and conduct, the anti-fraud program, the process for disclosing wrongdoing and reports from the Ombudsperson

> oversee information management systems, their performance and information security

> recommend the appointment and removal of, and succession planning for, the Chief Audit Executive

> oversee the activities and assess the performance of the Chief Audit Executive and the internal audit function

> make recommendations on the appointments of auditors and special examiners, oversee their activities and assess the performance of external auditors

> review the scope and terms of engagement of auditors and special examiners who report directly to the committee and are accountable to the board

> oversee the activities of the corporate compliance function, including regulatory compliance, and assess its performance, as well as monitoring confidentiality and privacy issues

> oversee capital management, allocation, adequacy and the declaration of a dividend

> review board members' and officers' expenses

Board Risk Committee

Chairperson Robert H. Pitfield **Number of meetings** 18	**Members** Tracey Scarlett Abdullah Snobar Suzanne Trottier Mary Alice Vuicic

This committee's main duties are as follows:

> review and recommend to the board the risk management framework

> oversee the work of the Chief Risk Officer and the risk oversight functions

> identify and manage BDC's principal financial, business and operational risks, and oversee the Bank's risk culture

> regularly review the Enterprise Risk Management Policy and other policies concerning key risks, such as credit, market, strategic, reputational, operational, information technology and other principal risks

> review and recommend to the board all strategies related to BDC's material financial offerings

> approve and assess the effectiveness of BDC's risk appetite statement and monitor compliance with the models and limits contained in it

> review reports and indicators related to BDC's risk profile regarding enterprise risk management, portfolio risk management, capital management and adequacy, treasury operations risks, and information technology security, including emerging risks and exceptions to the risk appetite statement and policies

> approve the framework for assessing and approving new business activities, products and services, except those related to venture capital

> ensure the effectiveness of stress testing procedures, and review reports on BDC's risk profile, stress testing processes, and the stress testing methodology, including review of the internal capital adequacy assessment process

> periodically review the business continuity plan

> approve loans and transactions that exceed the delegated authorities of senior management

> review policies and guidelines related to the delegation of authority for all financial products, except venture capital products

Governance/Nominating Committee

Chairperson	**Members**
Mike Pedersen	Sandra Bosela Brian O'Neil Robert H. Pitfield Mary-Alice Vuicic
Number of meetings 6	

This committee helps the board fulfill its corporate governance oversight responsibilities. Its main duties are as follows:

- continually review best practices and regulations related to governance in Canada and, if necessary, recommend changes to BDC's approach
- annually review BDC's corporate governance policies, including the Board Code of Conduct, and the Employee Code of Conduct, Ethics and Values
- annually assess the board's compliance with these policies
- monitor procedures established to detect and manage potential conflicts of interest
- regularly review the mandates, structures and memberships of the board and its committees
- develop selection criteria for the President and CEO position
- recommend to the board, for the consideration of the Minister of Small Business, Export Promotion and International Trade, the reappointment of the Chairperson of the Board, the President and CEO, and members of the board
- retain a search firm to identify candidates for the positions of the Chairperson of the Board, the President and CEO, and members of the board
- review and annually approve the list of skills required by members of the board
- develop processes to assess the performance of the board, its committees and its members
- ensure that comprehensive orientation and continuous training programs are in place for members of the board

Human Resources Committee

Chairperson	**Members**
Mary-Alice Vuicic	Cathy Bennett Sandra Bosela Shahir Guindi Robert H. Pitfield Tracey Scarlett
Number of meetings 5	

This committee's main duties are as follows:

- assess the "tone at the top" established by senior management regarding integrity and ethics, and review policies for managing personnel effectively
- review the human resources strategy—including key human resources objectives, plans and workforce requirements—proposed by management and recommend it to the board
- review—and, if appropriate, recommend to the board for approval—any major organizational structure changes, including the President and CEO's and other committees' recommendations for appointments of senior management committee members, the Chief Audit Executive, the Chief Risk Officer and the Ombudsperson
- assess the President and CEO's objectives, performance, evaluation and benefits
- review compensation for senior executives
- review and approve the design of compensation policies, programs and plans
- approve performance measures and metrics
- review actuarial evaluation reports and financial statements related to BDC pension plans, as well as recommend funding contributions to the board for approval
- ensure there is a valid succession plan in place for all critical positions, including the Chief Risk Officer and Chief Audit Executive
- assess human resources risks, such as those related to employee attraction, retention, engagement and performance
- recommend to the board funding and design changes to the pension plans
- monitor the funded status of the plans
- recommend the pension plan funds' financial statements to the board for approval
- advise the board on pension plans' investment strategies and the asset mix

Board Investment Committee

Chairperson	**Members**
Sandra Bosela	Cathy Bennett Michael Calyniuk Shahir Guindi Vijay Kanwar Brian O'Neil
Number of meetings 25	

This committee's duties are as follows:

> regularly review the Venture Capital Policy, and other policies and processes for investment activities

> review and assess all risks associated with investments and the management thereof

> review all strategies, guardrails and capital allocations for all material investment activities, including venture capital and private equity

> approve the business plans of the five venture capital internal funds, as well as their investment strategies, capital allocation and guardrails

> review strategic initiatives aimed at improving the venture capital ecosystem

> review and recommend delegations of authority

> monitor portfolio performance

> approve investments that exceed the delegated authorities of senior management

Clean Technology Special Committee

Chairperson	**Members**
Sandra Bosela	Shahir Guindi Nancy M. Laird Brian O'Neil Robert H. Pitfield
Number of meetings 1	

This committee's duties are as follows:

> review the implementation of the Cleantech Practice.

> oversee the performance of the Cleantech Practice portfolio

> approve all transactions until authority is delegated to senior management

> review and assess all risks associated with the Cleantech Practice, including its management and transactions

> review quarterly reports on activities, portfolio performance and capital requirements and usage

> this Committee was combined with the Board Investment Committee and held its last meeting on May 1, 2019

To see board committees' mandates, please go to www.bdc.ca.

Fiscal 2020 Board of Directors and Committee Attendance

	Board of Directors			Audit and Conduct Committee			Board Investment Committee			Board Risk Committee			Clean Technology Special Committee			Governance/ Nominating Committee			Human Resources Committee			Committee meetings		
Directors	Attendance	Total	%	Attendance	Total	%	Attendance	Total	%	Attendance	Total	%	Attendance	Total	%	Attendance	Total	%	Attendance	Total	%	Attendance	Total	%
Mike Pedersen(1)	12	12	100%													6	6	100%				6	6	**100%**
Cathy Bennett(2)	11	11	100%				12	16	75%										4	4	100%	16	20	**80%**
Sandra Bosela	10	12	83%				22	25	88%				1	1	100%	4	6	67%	4	5	80%	31	37	**84%**
Michael Calyniuk(3)	12	12	100%	6	6	100%	16	17	94%	8	8	100%				5	5	100%				35	36	**97%**
Michael Denham(4)	11	11	100%																			N/A	N/A	**N/A**
Shahir Guindi(5)	12	12	100%				17	20	85%				0	1	0%				4	5	80%	21	26	**81%**
Vijay Kanwar(6)	11	12	92%	6	6	100%	17	24	71%													23	30	**77%**
Nancy M. Laird(7)	2	2	100%	2	2	100%	6	6	100%				1	1	100%							9	9	**100%**
Claude Mc Master(8)	1	1	100%	1	1	100%				3	3	100%										4	4	**100%**
Brian O'Neil(9)	12	12	100%	4	4	100%	21	22	95%				1	1	100%	1	1	100%	2	2	100%	29	30	**97%**
Robert H. Pitfield	11	12	92%							16	18	89%	1	1	100%	6	6	100%	5	5	100%	28	30	**93%**
Tracey Scarlett(10)	11	12	92%							16	17	94%							4	5	80%	20	22	**91%**
Abdullah Snobar(11)	9	11	82%	3	3	100%				9	9	100%										12	12	**100%**
Suzanne Trottier(12)	10	10	100%	3	3	100%				9	9	100%										12	12	**100%**
Mary Alice Vuicic	10	12	83%							16	18	89%				6	6	100%	5	5	100%	27	29	**93%**

Notes

(1) Mr. Pedersen is the Chairperson of the Board and the Governance/Nominating Committee. Although Mr. Pedersen is not a member of any other committees, he attends meetings regularly.

(2) Ms. Bennett joined the Board of Directors on May 21, 2019. Following the Board of Directors' meeting of July 29, 2019, Ms. Bennett became a member of the Board Investment Committee and Human Resources Committee.

(3) Following the Board of Directors' meeting of July 29, 2019, Mr. Calyniuk ceased to be a member of the Board Risk Committee and became a member of the Board Investment Committee. Mr. Calyniuk ceased being the Chairperson of the Audit and Conduct Committee as of December 31, 2019.

(4) Mr. Denham is BDC's President and CEO. As President and CEO, Mr. Denham is not a member of any committee; however, he attends meetings regularly. Mr. Denham did not attend the February 26, 2020, meeting because the reappointment and succession of the President and CEO was discussed. This meeting has been excluded from the statistics listed above.

(5) Due to potential conflicts of interest, Mr. Guindi recused himself from seven Board Investment Committee meetings. These meetings have been excluded from the statistics listed above.

(6) Due to potential conflicts of interest, Mr. Kanwar recused himself from one Board Investment Committee meeting. This meeting has been excluded from the statistics listed above.

(7) Ms. Laird ceased to be a member of the board on June 19, 2019.

(8) Mr. Mc Master ceased to be a member of the board on May 21, 2019.

(9) Following the Board of Directors' meeting of July 29, 2019, Mr. O'Neil became a member of the Audit and Conduct Committee and ceased being a member of the Human Resources Committee. Mr. O'Neil was nominated as the Chairperson of the Committee as of January 1, 2020. Due to potential conflicts of interest, Mr. O'Neil recused himself from three Board Investment Committee meetings. These meetings have been excluded from the statistics listed above.

(10) Due to potential conflicts of interest, Ms. Scarlett recused herself from one Board Risk Committee meeting. This meeting has been excluded from the statistics listed above.

(11) Mr. Snobar joined the Board of Directors on May 21, 2019. Following the Board of Directors' meeting of July 29, 2019, Mr. Snobar became a member of the Audit and Conduct Committee and the Board Risk Committee.

(12) Ms. Trottier joined the Board of Directors on June 19, 2019. Following the Board of Directors' meeting of July 29, 2019, Ms. Trottier became a member of the Audit and Conduct Committee and the Board Risk Committee.

2 Board of Directors

(March 31, 2020)

Mike Pedersen Chairperson of the Board BDC Toronto, Ontario	**Michael Denham** President and CEO BDC Montreal, Quebec	**Cathy Bennett** Entrepreneur SheEO St. John's, Newfoundland and Labrador	**Sandra Bosela** Co-Head, Managing Director and Global Head Private Equity OPTrust Private Markets Group Toronto, Ontario	**Michael Calyniuk** President MEC Dynamics Inc. Vancouver, British Columbia
Shahir Guindi Co-Chair Osler, Hoskin & Harcourt LLP Montreal, Quebec	**Vijay Kanwar** Founder KMH Cardiology and Diagnostic Centres Inc. Founder and President Lambardar Inc. Mississauga, Ontario	**Brian O'Neil** Managing Partner A Faire Aujourd'hui Inc. Toronto, Ontario	**Robert H. Pitfield** Executive Chairman of the Board TravelEdge Group Toronto, Ontario	**Tracey Scarlett** Corporate Director Edmonton, Alberta
Abdullah Snobar Executive Director DMZ at Ryerson University Toronto, Ontario	**Suzanne Trottier** Director, Capacity Development and Intervention First Nations Management Board Vancouver, British Columbia	**Mary-Alice Vuicic** Chief People Officer Thomson Reuters Toronto, Ontario		

To see BDC's directors' biographies, please go to www.bdc.ca.

3 Senior Management Team

(March 31, 2020)

Michael Denham President and CEO	**Michel Bergeron** Chief Strategy Officer	**Stéphane Bilodeau** Chief Information Officer	**Pierre Dubreuil** Executive Vice President Financing
Sylvain Gendron Chief Legal Officer and Corporate Secretary	**Marie-Chantal Lamothe** Chief Human Resources Officer	**Peter Lawler** Executive Vice President Advisory Services	**Stefano Lucarelli** Executive Vice President and Chief Financial Officer
Annie Marsolais Chief Marketing Officer	**Jérôme Nycz** Executive Vice President BDC Capital	**Christopher Rankin** Executive Vice President and Chief Risk Officer	

To see BDC's senior management team members' biographies, please go to www.bdc.ca.

Five-Year Operational and Financial Summary

for the years ended March 31 (in thousands of Canadian dollars)

Operational Statistics	2020	2019	2018	2017	2016
Loans					
Committed to clients(1)					
as at March 31					
Amount	**31,546,910**	29,943,724	27,520,367	25,310,146	22,574,100
Number of clients	**49,391**	47,104	43,989	39,203	34,428
Acceptances					
Amount	**7,405,087**	7,222,429	6,832,205	6,616,301	5,106,790
Number	**18,608**	17,206	17,554	16,427	14,437
Asset-backed securities					
Amount committed to clients(1)					
as at March 31	**1,010,905**	996,768	880,516	945,761	805,754
Amount authorized	**40,000**	90,000	(65,000)(2)	140,000	175,000
Subordinate Financing					
Committed to clients(1)					
as at March 31					
Amount	**1,569,965**	1,401,933	1,197,764	974,307	836,874
Number of clients	**656**	654	640	594	537
Acceptances					
Amount	**543,953**	463,401	456,202	325,105	259,060
Number	**193**	177	207	185	174
Venture Capital					
Committed to clients(1)					
as at March 31					
Amount	**2,327,093**	2,146,605	1,664,163	1,620,363	1,568,480
Number of clients	**268**	261	254	261	243
Authorizations					
Amount	**324,212**	587,536	188,276	160,812	318,062
Number	**77**	99	67	91	130
BDC					
Total committed to clients	**36,454,873**	34,489,030	31,262,810	28,850,577	25,785,208

(1) Amount committed to clients represents portfolio outstanding and amount undisbursed, at cost.

(2) Amount cancelled includes $60,000 of authorizations and $125,000 of cancellations.

(in thousands of Canadian dollars)

Financial Information	2020	2019	2018	2017	2016
Net Income (loss) and Comprehensive Income (loss)—by Business Segments[1] for the years ended March 31					
Financing	**32,053**	621,272	613,729	450,667	444,879
Advisory Services	**(46,807)**	(49,780)	(51,082)	(45,784)	(31,569)
Growth & Transition Capital	**(17,836)**	73,440	71,174	44,631	53,697
Venture Capital	**(101,965)**	194,147	159,272	5,227	67,440
Venture Capital Incentive Programs	**(72,090)**	53,090	25,741	10,075	3,284
Cleantech Practice	**(11,354)**	(6,567)	(571)	-	-
Net income (loss)	**(217,999)**	885,602	818,263	464,816	537,731
Net income (loss) attributable to:					
BDC's shareholder	**(193,018)**	878,482	775,004	465,974	535,448
Non-controlling interests	**(24,981)**	7,120	43,259	(1,158)	2,283
Net income (loss)	**(217,999)**	885,602	818,263	464,816	537,731
Other comprehensive income (loss)[2]	**92,953**	(67,879)	(40,532)	71,702	(43,653)
Total comprehensive income (loss)	**(125,046)**	817,723	777,731	536,518	494,078
Total comprehensive income (loss) attributable to:					
BDC's shareholder	**(100,065)**	810,603	734,472	537,676	491,795
Non-controlling interests	**(24,981**	7,120	43,259	(1,158)	2,283
Total comprehensive income (loss)	**(125,046)**	817,723	777,731	536,518	494,078
Financial Position Information as at March 31					
Loans, net of allowance for expected credit losses	**27,273,088**	25,916,222	23,728,191	21,752,511	19,717,706
Asset-backed securities	**777,838**	700,343	472,695	518,088	509,758
Subordinate financing investments	**1,240,588**	1,152,182	1,052,352	860,448	751,404
Venture Capital investments	**1,721,136**	2,027,778	1,663,627	1,317,254	1,065,668
Total assets	**33,153,358**	30,656,454	27,809,166	25,316,765	22,905,903
Total liabilities	**24,250,559**	22,900,694	21,049,963	19,377,470	17,556,384
Total equity attributable to:					
BDC's shareholder	**8,891,660**	7,714,125	6,716,472	5,917,500	5,323,473
Non-controlling interests	**11,139**	41,635	42,731	21,795	26,046
Total equity	**8,902,799**	7,755,760	6,759,203	5,939,295	5,349,519

(1) For detailed information on fiscal 2020 and fiscal 2019 segmented information, please also refer to Note 26—*Segmented information* to the Consolidated Financial Statements.

(2) For detailed information on fiscal 2020 and fiscal 2019 Other comprehensive income (Loss), please refer to Consolidated Statement of Comprehensive Income (Loss) (p.58).

Glossary

Acceptance—The point at which the client has agreed to the authorized financing terms and conditions that BDC has offered him or her. Client acceptance follows BDC authorization. (Information on acceptances disclosed in this report is net of cancellations or reductions after client acceptance.)

Allowance for expected credit losses—Represents management's estimate of expected credit losses as at the Financial Position date. Allowance for expected credit losses can be on impaired or performing portfolio. The expected credit losses on outstanding loans are recorded on the Financial Position as a deduction from loans and the expected credit losses on loan commitments is recorded in other liabilities.

Allowance on impaired portfolio—Established by the management to measure the expected credit losses on the credit-impaired loan portfolio.

Allowance on performing portfolio—Established by management to measure the expected credit losses on the performing loan portfolio.

Asset-backed securities—Securities created through the securitization of a pool of assets. For example, BDC's securitization contains Canadian AAA-rated term securities backed by loans and leases on vehicles and equipment, as well as dealer floor plan loans.

Authorization—The point at which BDC has completed its due diligence and approved the financing request or venture capital investment. Authorization precedes acceptance. (Information on authorizations disclosed in this report is net of cancellations or reductions after BDC authorization.)

Cross-currency swaps—Agreements to exchange payments in different currencies over pre-determined periods of time.

Debt-to-equity ratio—A measure to ensure BDC operates within its statutory limitations on debts, calculated as the aggregate of borrowings and contingent liabilities over the equity attributable to BDC's shareholder. It also includes preferred shares classified as liabilities, and excludes accumulated other comprehensive income or loss. The statutory limit of BDC's debt-to-equity ratio is 12:1.

Derivative financial instruments—Contracts whose value is "derived" from movements in interest or foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

Direct investments—Investments BDC makes directly in investee companies.

Fair value—The price that knowledgeable, willing parties—under no compulsion to act—would agree to in an arm's-length transaction. Fair value represents management's best estimate of the net worth of an investment at the Financial Position date and may not reflect the ultimate realizable value upon disposal of the investment.

Financing efficiency ratio—A measure of the efficiency with which BDC incurs expenses to generate income on its financing operations. It is calculated as operating and administrative expenses, as a percentage of net revenue. A lower ratio indicates improved efficiency.

Hedging—A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal banking operations.

Impaired loans—Loans are deemed impaired when the interest or principal of the loan is in arrears for three consecutive months or more or if there is reason to believe that a portion of the principal or interest cannot be collected.

Interest rate swaps—Agreements to exchange streams of interest payments—typically, one at a floating rate and the other at a fixed rate—over a specified period, based on notional principal amounts.

Master netting agreement—A standard bilateral contract that enables trading counterparties to agree to net collateral requirements and, in a close-out situation, settlement amounts related to underlying master trading contracts for sales and purchases of financial instruments. The master netting agreement offsets positive balances of one transaction with negative balances of another.

Net change in unrealized appreciation or depreciation of investments—Amount included in income resulting from movements in the fair value of investments for the period.

Net interest income—The difference between interest revenues generated by interest-bearing portfolios, as well as cash equivalents and securities, and the cost of borrowings to fund these assets.

Net realized gains or losses on investments—Gains realized, net of realized capital losses, upon sale or write-off of investments, excluding the net change in unrealized appreciation or depreciation of venture capital and subordinate financing investments.

Net realized gains or losses on other financial instruments—Amounts that are related to structured notes and their associated derivatives. Realized gains or losses occur when financial instruments are repurchased prior to maturity at a price higher or lower than the original purchase price.

Net unrealized gains or losses on other financial instruments—Amounts that are related to structured notes and their associated derivatives. These represent the amounts included in income resulting from movements in the fair value of financial instruments for the period.

Non-controlling interest—The equity in a subsidiary not attributable, directly or indirectly, to BDC.

Performing portfolio—Loans for which there is reasonable assurance that BDC can collect the principal and interest on time.

Provision for expected credit losses—A charge to income that represents an amount that management deems adequate to fully provide for impairment in the loan portfolios, given the composition of the loan portfolios, the probability of default on the loans, the economic environment and the allowance for expected credit losses already established.

Adjusted return on common equity (ROE)—Net income (loss), less preferred share dividends, expressed as a percentage of average common equity. It excludes other comprehensive income or loss on post-employment benefits, accumulated other comprehensive income or loss, and non-controlling interest. It also excludes VC Incentive Programs, the Cleantech Practice and the Business Credit Availability Program (BCAP).

Revenue from Advisory Services—Fees charged to clients for management services (diagnostic, proposal and implementation) provided by BDC delivery employees (usually "Business Advisors") and External Consultants part of BDC's national network.

Start-up—A business that is being established for the first time. Also included in this category are existing enterprises that have not yet registered 12 consecutive months of sales.

Subordinate financing—A hybrid instrument that brings together some features of both debt financing and equity financing.

CG3 inc. | Communications | Graphisme

Iu130-2020E-PDF
ISSN 1495-6721 (Online)

Ce document est aussi disponible en français sur bdc.ca.

financing.
advising.
smarts.

bdc.ca