# 2017
# Financial Report

First Quarter

June 30, 2016

# Executive Summary

**The Canadian economy continues to adjust to lower oil prices. While the energy industry is struggling, non-energy exports remain stable and support economic growth in provinces with a large manufacturing base. Overall, the Canadian economy is making progress.**

Oil prices have stabilized over the last few months in the $45-to-$50 range. As world demand for oil continues to be robust and supply growth is slowing, the market is heading toward a new equilibrium. However, the impact of lower oil prices is still being felt in Alberta, Saskatchewan, and Newfoundland and Labrador. Employment is still declining in these provinces and the unemployment rate has increased significantly.

On the other hand, sustained economic growth in the United States and a low Canadian dollar continued to stimulate our exports, benefitting the manufacturing sector. Production, investment intentions, and employment are increasing in the manufacturing sector across the country, but especially in Quebec, Ontario, Manitoba and British Columbia. Exports are the main driver of economic growth in these provinces and in Canada as a whole. Continuing economic difficulties in Europe should not affect this scenario as Canadian exports to Europe currently accounts for only 4% of Canadian exports.

Business lending conditions remained stimulative, even if they have been recently tightening. In May 2016, total business credit had increased 4.5% over the previous year, 3.3% over three months and 4.8% over one month.[(1)] Short-term and long-term credit from chartered banks increased over the last 12 months.

In this context, BDC plays an important role in helping small and medium-sized businesses get the support they need to grow and succeed. Clients of Financing[(2)] accepted $1.7 billion in loans this quarter, compared to $1.4 billion for the same period last year.

As at June 30, 2016, Financing's[(2)] loan portfolio, before allowance for credit losses, stood at $20.8 billion, a 2.5% increase since March 31, 2016.

BDC continued to focus on small loans while also meeting the need for larger loans, notably for medium-sized businesses, and participating in financial transactions with other financial institutions. During the quarter, 2,583 clients of Financing and Growth & Transition Capital accepted loans of $750,000 or less for a total of $279.0 million, compared to 2,631 clients and $282.1 million, respectively, for the same period last year.

Growth & Transition Capital continued to support the growth plans of Canadian entrepreneurs through its diverse product offerings, with clients accepting $101.2 million in financing in the first quarter, compared to $61.0 million for the same period last year.

To support innovative Canadian companies and create the conditions for success in the venture capital ecosystem, Venture Capital authorized investments totalling $30.4 million in the first quarter, compared to $55.5 million in the same period last year. As a result of a high level of activity during the fourth quarter of fiscal 2016, authorized investments were lower during the first quarter of fiscal 2017.

(1) Source of data in this paragraph: Bank of Canada.

(2) Unless otherwise indicated, Financing excludes Growth & Transition Capital.

BDC Capital's Strategic Initiatives and Partnerships (SIP) team continued to develop innovative initiatives to reinforce key areas of the venture capital ecosystem. It makes investments in specialized funds, accelerators and graduates of accelerators. As at June 30, 2016, the SIP team had invested in 159 start-ups for a total of $30.0 million since its inception.

During the quarter, BDC continued to deploy the Venture Capital Action Plan (VCAP), a federal government initiative to invest $400 million to increase private sector venture capital financing for high-potential, innovative Canadian businesses. As at June 30, 2016, the total VCAP portfolio stood at $193.4 million, compared to $137.7 million as at March 31, 2016. VCAP has now completed its goal of supporting the closing of four private sector-led funds of funds with a total of $1.35 billion under management. This has resulted in over $900 million in private investor capital being added to the ecosystem.

BDC is maintaining its role in the securitization market, where small and medium-sized enterprises (SMEs) access financing for the vehicles and equipment they need to improve productivity. As at June 30, 2016, total asset-backed securities stood at $497.0 million, compared to $509.8 million as at March 31, 2016.

To better reflect the full range of services it offers, BDC Advantage was renamed Advisory Services. During the quarter, Advisory Services continued to offer a full range of services to help entrepreneurs address challenges such as operational efficiency, international expansion, technology implementation and business management. It also has a team of experienced advisors focused on mid-sized high-impact firms that are seeking accelerated growth. Most of what Advisory Services does is considered an investment in helping the competitiveness of Canadian entrepreneurs and SMEs. BDC takes on a great proportion of the costs associated with these activities and initiatives to ensure that firms can reap maximum benefits. Advisory Services' revenues for the first quarter of fiscal 2017 were $4.3 million, higher than the $3.5 million recorded in the same period of fiscal 2016.

In the first quarter of fiscal 2017, BDC posted consolidated net income of $92.4 million,[(3)] compared to $171.0 million[(3)] for the same period last year. The decrease was mostly attributable to higher net unrealized depreciation of venture capital investments in fiscal 2017 compared to the same period of fiscal 2016. Venture Capital's results in fiscal 2016 were favorably impacted by a $57.7 million unrealized appreciation of investments mainly due to an external round of financing for one of our investee.

For the quarter, other comprehensive loss was $62.1 million, compared to other comprehensive income of $71.9 million for the same period last year. The decrease in other comprehensive income was due to higher remeasurement loss on the net defined benefit asset or liability. Refer to the consolidated comprehensive income section for further information.

During the first quarter of fiscal 2017, a $68.6 million dividend was paid to BDC's shareholder, based on fiscal 2016 results.

On June 6, BDC officially launched its new brand identity, aimed at making its role and product offering better known to a greater number of entrepreneurs across Canada. BDC has developed a brand image to reflect the fact that it is a different kind of bank and Canada's only bank devoted exclusively to entrepreneurs. BDC's new signature–"financing, advising, smarts."–is meant to clearly position BDC as offering a unique combination of financing, such as loans, venture capital, subordinate financing and private equity, as well as advisory services. The third element of the signature will be used to portray a shared quality between entrepreneur and BDC.

(3) Including a net loss of $1.5 million and a net income of $0.7 million attributable to non-controlling interests for fiscal 2017 and 2016, respectively.

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

# BDC is the only bank devoted exclusively to Canadian entrepreneurs. It promotes entrepreneurship with a focus on small and medium-sized businesses. With more than 110 business centres from coast to coast, BDC provides businesses with financing, investments and advisory services.

**When entrepreneurs succeed, they make an irreplaceable contribution to Canada's economy. Supporting them is in our national interest.**

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

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

# Management Discussion and Analysis

## Context of the Quarterly Financial Report

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

## Risk Management

Risk is an inherent feature of the financial sector. BDC uses sound practices of integrated risk management (IRM).

BDC manages risk through the development and communication of policies; the establishment of formal risk reviews and approval processes; and the establishment of limits and delegation of authorities. The Board of Directors and its Risk Committee review quarterly IRM reports and monitor the effectiveness of BDC's IRM practices. In each line of business, management ensures that governance activities, controls, processes and procedures are consistent with BDC's sound IRM practices.

No significant changes were made to BDC's IRM practices and no new risks were identified during the quarter ended June 30, 2016.

# Analysis of Financial Results

Analysis of financial results is provided to enable a reader to assess BDC's results of operations and financial condition for the three-month period ended June 30, 2016, compared to the corresponding period of the prior fiscal year. This analysis also includes comments about significant variances from BDC's fiscal 2017–21 Corporate Plan, when applicable.

BDC reports on six business segments: Financing, Growth & Transition Capital, Venture Capital, Advisory Services, Securitization and Venture Capital Action Plan (VCAP). All amounts are in Canadian dollars, unless otherwise specified, and are based on unaudited condensed quarterly Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS).

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

## Consolidated net income

| | **Three months ended June 30** | |
|---|---|---|
| ($ in millions) | **F2017** | F2016 |
| Financing | **116.7** | 121.4 |
| Growth & Transition Capital | **9.1** | 5.1 |
| Venture Capital | **(10.9)** | 54.2 |
| Advisory Services | **(10.6)** | (7.6) |
| Securitization | **0.9** | 0.6 |
| Venture Capital Action Plan | **(12.8)** | (2.7) |
| **Net income** | **92.4** | 171.0 |
| **Net income attributable to:** | | |
| BDC's shareholder | **93.9** | 170.3 |
| Non-controlling interests | **(1.5)** | 0.7 |
| **Net income** | **92.4** | 171.0 |

### Three months ended June 30

BDC reported consolidated net income of $92.4 million for the first quarter ended June 30, 2016, comprising $93.9 million attributable to BDC's shareholder and a net loss of $1.5 million attributable to non-controlling interests. This compares to $171.0 million in consolidated net income for the first quarter of fiscal 2016, of which a net income of $0.7 million was attributable to non-controlling interests.

Net income in the first quarter of fiscal 2017 was lower than in the corresponding period of fiscal 2016, due primarily to a net loss of $10.9 million from Venture Capital compared to a strong net income of $54.2 million recorded in fiscal 2016. Refer to the Venture Capital section of this analysis for further information.

Results for the first quarter of fiscal 2017 are slightly above the Corporate Plan target for that same period. Currently, BDC expects its consolidated net income for fiscal 2017 to meet the Corporate Plan target of $368 million

## Consolidated comprehensive income

| ($ in millions) | Three months ended June 30 F2017 | F2016 |
|---|---|---|
| **Net income** | **92.4** | 171.0 |
| **Other comprehensive income (loss)** | | |
| Items that may be reclassified subsequently to net income | | |
| Net change in unrealized gains (losses) on available-for-sale assets | **(1.1)** | (0.4) |
| Net change in unrealized gains (losses) on cash flow hedges | **(0.2)** | (1.1) |
| **Total items that may be reclassified subsequently to net income** | **(1.3)** | (1.5) |
| Items that will not be reclassified to net income | | |
| Remeasurements of net defined benefit asset or liability | **(60.8)** | 73.4 |
| **Other comprehensive income (loss)** | **(62.1)** | 71.9 |
| **Total comprehensive income** | **30.3** | 242.9 |
| **Total comprehensive income attributable to:** | | |
| BDC's shareholder | **31.8** | 242.2 |
| Non-controlling interests | **(1.5)** | 0.7 |
| **Total comprehensive income** | **30.3** | 242.9 |

**Three months ended June 30**

Consolidated total comprehensive income for the first quarter was $30.3 million, comprising $92.4 million in consolidated net income and $62.1 million in other comprehensive loss.

BDC recorded other comprehensive loss of $62.1 million for the first quarter ended June 30, 2016, compared to other comprehensive income of $71.9 million for the same period last year.

Remeasurements of net defined benefit asset or liability of $60.8 million contributed to the decrease in total comprehensive income for the three-month period ended June 30, 2016. For the most part, these losses were caused by lower discount rates used to value the net defined benefit obligation, partially offset by higher returns on pension plan assets.

## Financing results

| ($ in millions) | Three months ended June 30 F2017 | F2016 |
|---|---|---|
| Net interest and fee income and other income | **249.0** | 236.9 |
| Provision for credit losses | **(37.8)** | (28.2) |
| Net gains (losses) on other financial instruments | **(0.2)** | 1.2 |
| **Income before operating and administrative expenses** | **211.0** | 209.9 |
| Operating and administrative expenses | **94.3** | 88.5 |
| **Net income from Financing** | **116.7** | 121.4 |

| As % of average portfolio | Three months ended June 30 F2017 | F2016 |
|---|---|---|
| Net interest and fee income and other income | **4.8** | 4.9 |
| Provision for credit losses | **(0.7)** | (0.6) |
| Net gains (losses) on other financial instruments | **-** | - |
| **Income before operating and administrative expenses** | **4.1** | 4.3 |
| Operating and administrative expenses | **1.8** | 1.8 |
| **Net income from Financing** | **2.3** | 2.5 |

### Three months ended June 30

Financing's net income was $116.7 million for the first quarter of fiscal 2017, compared to $121.4 million for the same period last year. The slight decrease in profitability for the three-month period ended June 30, 2016, was mainly due to a higher provision for credit losses and higher operating and administrative expenses. However, net interest and fee income increased by $12.1 million as a result of an 8% increase of the average portfolio compared to the same period of fiscal 2016. Higher provision for credit losses was recorded to reflect the economic uncertainty resulting from declining oil prices. Despite the increase in the provision for credit losses, the level of losses remained low, at 0.7% of the average portfolio, for the three-month period ended June 30, 2016.

Operating and administrative expenses for the three-month period ended June 30, 2016, were higher than those in the corresponding period last year. However, as a percentage of the average portfolio, operating and administrative expenses were comparable to those in the same period last year. The increase was mainly due to costs associated with the deployment of our new brand identity, as well as higher staff levels aimed at increasing BDC's presence across Canada, especially in Western Canada and Ontario, so that we can help more entrepreneurs and have a greater impact on their ability to innovate, grow and become more productive.

## Growth & Transition Capital results

| ($ in millions) | Three months ended June 30 F2017 | F2016 |
|---|---|---|
| Net revenue on investments | **18.3** | 19.4 |
| Net change in unrealized appreciation (depreciation) of investments | **(1.2)** | (7.0) |
| **Income before operating and administrative expenses** | **17.1** | 12.4 |
| Operating and administrative expenses | **8.0** | 7.3 |
| **Net income from Growth & Transition Capital** | **9.1** | 5.1 |
| **Net income attributable to:** | | |
| BDC's shareholder | **9.1** | 4.8 |
| Non-controlling interests | **-** | 0.3 |
| **Net income from Growth & Transition Capital** | **9.1** | 5.1 |

### Three months ended June 30

Growth & Transition Capital's net income for the first quarter of fiscal 2017 was $9.1 million,a strong result compared to net income of $5.1 million for the same period last year.

Net revenue on investments, which comprised net interest income, net realized gains (losses) on investments, and fee and other income, reached $18.3 million for the first quarter, lower than the $19.4 million recorded last year. Net interest income of $16.0 million was $2.2 million higher than the $13.8 million recorded in the first quarter of fiscal 2016, mainly due to the growth of the portfolio. Net realized losses on investments were $2.2 million compared to realized gains of $0.2 million in fiscal 2016, mainly as a result of higher write-offs. Fee and other income of $4.5 million were $0.9 million lower than the $5.4 million recorded in the same period last year, mainly due to lower prepayments.

BDC recorded a net change in unrealized depreciation of investments of $1.2 million compared to a net change in unrealized depreciation of investments of $7.0 million for the same period last year, as detailed below.

| ($ in millions) | Three months ended June 30 F2017 | F2016 |
|---|---|---|
| Net fair value appreciation (depreciation) | **(3.0)** | (5.3) |
| Reversal of net fair value depreciation (appreciation) due to realized income and write-offs | **1.8** | (1.7) |
| **Net change in unrealized appreciation (depreciation) of investments** | **(1.2)** | (7.0) |

Operating and administrative expenses increased by $0.7 million from the first quarter of fiscal 2016, as a result of higher staff levels required to fully support the growth and transition plans of our clients. However, as a percentage of the average portfolio, operating and administrative expenses remained at the same level as in fiscal 2016.

## Venture Capital results

| | Three months ended June 30 | |
|---|---|---|
| ($ in millions) | **F2017** | F2016 |
| Net revenue (loss) on investments | **(1.1)** | 3.0 |
| Net change in unrealized appreciation (depreciation) of investments | **(3.6)** | 57.7 |
| Net unrealized foreign exchange gains (losses) on investments | **(1.1)** | (1.5) |
| Net gains (losses) on other financial instruments | **(0.1)** | 0.3 |
| **Income before operating and administrative expenses** | **(5.9)** | 59.5 |
| Operating and administrative expenses | **5.0** | 5.3 |
| **Net income (loss) from Venture Capital** | **(10.9)** | 54.2 |
| **Net income attributable to:** | | |
| BDC's shareholder | **(9.4)** | 53.8 |
| Non-controlling interests | **(1.5)** | 0.4 |
| **Net income (loss) from Venture Capital** | **(10.9)** | 54.2 |

### Three months ended June 30

During the first quarter of fiscal 2017, Venture Capital recorded a net loss of $10.9 million, compared to a net income of $54.2 million for the same period last year. Fiscal 2016 net income was favorably impacted by a $57.7 million unrealized appreciation of investments following an external round of financing for one of our investees.

Net loss on investments was $1.1 million in fiscal 2017 compared to a net revenue on investments of $3.0 million for the same period last year, primarily due to lower realized gains on divestiture of investments.

BDC recorded a net change in unrealized depreciation of investments of $3.6 million, compared to a net change in unrealized appreciation of investments of $57.7 million for the same period last year, as detailed below.

| | Three months ended June 30 | |
|---|---|---|
| ($ in millions) | **F2017** | F2016 |
| Net fair value appreciation (depreciation) | **(9.5)** | 55.1 |
| Reversal of fair value depreciation (appreciation) on divested investments and write-offs | **5.9** | 2.6 |
| **Net change in unrealized appreciation (depreciation) of investments** | **(3.6)** | 57.7 |

## Advisory Services results

| ($ in millions) | Three months ended June 30 F2017 | F2016 |
|---|---|---|
| Revenue | **4.3** | 3.5 |
| Operating and administrative expenses | **14.9** | 11.1 |
| **Net loss from Advisory Services** | **(10.6)** | (7.6) |

**Three months ended June 30**

At the beginning of fiscal 2017, BDC Advantage was renamed Advisory Services, in order to better reflect the full range of non-financial services offered to entrepreneurs. 482 mandates were initiated during the first quarter of fiscal 2017 compared to 413 during the first quarter of fiscal 2016.

Revenues were $4.3 million for the first quarter ended June 30, 23% higher than the $3.5 million recorded for the same period last year.

Advisory Services' net loss was $10.6 million for the first quarter of fiscal 2017, compared to a $7.6 million net loss recorded for the same quarter last year.

Operating and administrative expenses of $14.9 million were $3.8 million higher than those recorded in the same period of fiscal 2016, as BDC continued to allocate resources to develop its range of other non-financial services, including new offerings for Canada's high-impact firms and an enhanced offering to help businesses expand internationally.

## Securitization results

| ($ in millions) | Three months ended June 30 F2017 | F2016 |
|---|---|---|
| Net interest and fee income | **1.5** | 1.1 |
| **Income before operating and administrative expenses** | **1.5** | 1.1 |
| Operating and administrative expenses | **0.6** | 0.5 |
| **Net income from Securitization** | **0.9** | 0.6 |

**Three months ended June 30**

Net income from Securitization for the first quarter of fiscal 2017 was $0.9 million, compared to net income of $0.6 million for the same period last year.

Net interest and fee income was $1.5 million for the three-month period ended June 30, 2016, higher than the $1.1 million recorded for the same period last year. This was mainly due to the growth of the asset-backed securities portfolio in the first quarter of fiscal 2017 compared to the same period of last year.

Operating and administrative expenses for the three-month period ended June 30, 2016, were slightly higher than those reported for the same period last year.

## Venture Capital Action Plan results

| | Three months ended June 30 | |
|---|---|---|
| ($ in millions) | **F2017** | F2016 |
| Net revenue (loss) on investments | **0.1** | - |
| Net change in unrealized appreciation (depreciation) of investments | **(12.8)** | (2.5) |
| **Income (loss) before operating and administrative expenses** | **(12.7)** | (2.5) |
| Operating and administrative expenses | **0.1** | 0.2 |
| **Net income (loss) from Venture Capital Action Plan** | **(12.8)** | (2.7) |

**Three months ended June 30**

During the first quarter of fiscal 2017, Venture Capital Action Plan (VCAP) recorded a net loss of $12.8 million compared to a net loss of $2.7 million for the same period last year. Fiscal 2017 net change in unrealized depreciation of investments was impacted by a decrease in fair value of underlying funds as well as expenses related to the closing of two funds of funds.

Operating and administrative expenses of $0.1 million were slightly lower than those recorded in the same period of fiscal 2016.

## Consolidated statement of financial position and cash flows

As at June 30, 2016, total BDC assets amounted to $23.4 billion, an increase of $0.5 billion from March 31, 2016, mainly due to the increase in loans and investments.

At $20.2 billion, the loan portfolio represented BDC's largest asset ($20.8 billion in gross portfolio less a $0.6 billion allowance for credit losses). The gross loan portfolio grew by 2.5% in the three months after March 31, 2016.

As for BDC's investment portfolios, the subordinate financing portfolio stood at $797.0 million, compared to $751.4 million as at March 31, 2016. The venture capital portfolio was $933.3 million as at June 30, 2016, compared to $928.0 million as at March 31, 2016. The venture capital action plan portfolio stood at $193.4 million, compared to $137.7 million as at March 31, 2016.

The asset-backed securities (ABS) portfolio stood at $497.0 million, compared to $509.8 million as at March 31, 2016. The decrease in the portfolio was due to net repayments of securities purchased under the Funding Platform for Independent Lenders (F-PIL) program.

Derivative assets of $34.5 million and derivative liabilities of $4.0 million reflected the fair value of derivative financial instruments as at June 30, 2016. Net derivative fair value decreased by $17.1 million, compared to the fair value as at March 31, 2016, primarily due to a decrease in fair value, as well as to maturities and redemptions.

As at June 30, 2016, BDC recorded a net defined benefit asset of $8.0 million related to the registered pension plan, and a net defined benefit liability of $228.2 million for the other plans, for a total net defined benefit liability of $220.2 million. This represented an increase of $56.2 million compared to the total net defined benefit liability as at March 31, 2016, primarily as the result of remeasurement losses recorded during the three-month period ended June 30, 2016. Refer to page 8 of this report for further information on remeasurements of net defined benefit asset or liability.

BDC holds cash and cash equivalents in accordance with its Treasury Risk Policy. The Bank's liquidities, which ensure funds are available to meet BDC's cash outflows, totalled $647.3 million as at June 30, 2016, compared to $680.1 million as at March 31, 2016. For the three-month period ended June 30, 2016, cash flow used by investing activities amounted to $118.6 million, mainly as a result of net disbursements of subordinate financing, venture capital and venture capital action plan investments. Financing activities provided $454.5 million in cash flow, mainly as a result of the issuance of short-term notes, partially offset by the repayment of long-term notes and the payment of dividends. Operating activities used $368.6 million, mainly due to the increase in the loans portfolio.

As at June 30, 2016, BDC funded its portfolios and liquidities with borrowings of $17.7 billion and total equity of $5.3 billion. Borrowings comprised $17.5 billion in short-term notes and $0.2 billion in long-term notes.

# Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)


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# Management's Responsibility for Financial Information

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

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

**Michael Denham**
President and Chief Executive Officer

**Paul Buron, CPA, CA**
Executive Vice President
and Chief Financial and Risk Officer

Montreal, Canada
July 26, 2016

# Consolidated Statement of Financial Position

(unaudited)

| (in thousands of Canadian dollars) | Notes | **June 30, 2016** | March 31, 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | | **647,343** | 680,093 |
| Derivative assets | | **34,467** | 51,687 |
| Loans and investments | | | |
| Asset-backed securities | 7 | **496,997** | 509,758 |
| Loans | 8 | **20,216,724** | 19,717,706 |
| Subordinate financing investments | 9 | **797,040** | 751,404 |
| Venture capital investments | 10 | **933,332** | 928,000 |
| Venture capital action plan investments | 11 | **193,350** | 137,668 |
| **Total loans and investments** | | **22,637,443** | 22,044,536 |
| Property and equipment | | **22,513** | 22,849 |
| Intangible assets | | **35,929** | 38,446 |
| Net defined benefit asset | | **8,025** | 53,995 |
| Other assets | | **20,582** | 14,297 |
| **Total assets** | | **23,406,302** | 22,905,903 |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Accounts payable and accrued liabilities | | **107,421** | 96,966 |
| Derivative liabilities | | **3,954** | 4,077 |
| Borrowings | | | |
| Short-term notes | | **17,482,026** | 16,848,041 |
| Long-term notes | | **231,137** | 350,268 |
| **Total borrowings** | | **17,713,163** | 17,198,309 |
| Net defined benefit liability | | **228,199** | 217,996 |
| Other liabilities | | **42,772** | 39,036 |
| **Total liabilities** | | **18,095,509** | 17,556,384 |
| **Equity** | | | |
| Share capital | 12 | **2,288,400** | 2,288,400 |
| Contributed surplus | | **27,778** | 27,778 |
| Retained earnings | | **2,967,970** | 3,003,483 |
| Accumulated other comprehensive income | | **2,553** | 3,812 |
| **Equity attributable to BDC's shareholder** | | **5,286,701** | 5,323,473 |
| Non-controlling interests | | **24,092** | 26,046 |
| **Total equity** | | **5,310,793** | 5,349,519 |
| **Total liabilities and equity** | | **23,406,302** | 22,905,903 |

**Guarantees (Note 14)**

**Commitments (Note 15)**

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

# Consolidated Statement of Income

(unaudited)

| (in thousands of Canadian dollars) | Three months ended June 30 2016 | 2015 |
|---|---|---|
| Interest income | **278,367** | 271,200 |
| Interest expense | **19,466** | 23,194 |
| **Net interest income** | **258,901** | 248,006 |
| Net realized gains (losses) on investments | **(3,935)** | 2,879 |
| Consulting revenue | **4,292** | 3,554 |
| Fee and other income | **12,752** | 9,474 |
| Net realized gains (losses) on other financial instruments | **2,037** | 399 |
| **Net revenue** | **274,047** | 264,312 |
| Provision for credit losses | **(37,813)** | (28,159) |
| Net change in unrealized appreciation (depreciation) of investments | **(17,544)** | 48,178 |
| Net unrealized foreign exchange gains (losses) on investments | **(1,081)** | (1,451) |
| Net unrealized gains (losses) on other financial instruments | **(2,336)** | 1,086 |
| **Income before operating and administrative expenses** | **215,273** | 283,966 |
| Salaries and benefits | **86,320** | 81,249 |
| Premises and equipment | **10,150** | 9,490 |
| Other expenses | **26,435** | 22,217 |
| **Operating and administrative expenses** | **122,905** | 112,956 |
| **Net income** | **92,368** | 171,010 |
| **Net income attributable to:** | | |
| BDC's shareholder | **93,902** | 170,358 |
| Non-controlling interests | **(1,534)** | 652 |
| **Net income** | **92,368** | 171,010 |

The accompanying notes are an integral part of these Consolidated Financial Statements and Note 13 provides additional information on segmented net income.

# Consolidated Statement of Comprehensive Income

(unaudited)

| (in thousands of Canadian dollars) | Three months ended June 30 2016 | 2015 |
|---|---|---|
| **Net income** | **92,368** | 171,010 |
| **Other comprehensive income (loss)** | | |
| Items that may be reclassified subsequently to net income | | |
| Net change in unrealized gains (losses) on available-for-sale assets | **(1,046)** | (394) |
| Net unrealized gains (losses) on cash flow hedges | **(166)** | (1,048) |
| Reclassification to net income of losses (gains) on cash flow hedges | **(47)** | (44) |
| Net change in unrealized gains (losses) on cash flow hedges | **(213)** | (1,092) |
| Total items that may be reclassified subsequently to net income | **(1,259)** | (1,486) |
| Items that will not be reclassified to net income | | |
| Remeasurements of net defined benefit asset or liability | **(60,766)** | 73,385 |
| **Other comprehensive income (loss)** | **(62,025)** | 71,899 |
| **Total comprehensive income** | **30,343** | 242,909 |
| **Total comprehensive income attributable to:** | | |
| BDC's shareholder | **31,877** | 242,257 |
| Non-controlling interests | **(1,534)** | 652 |
| **Total comprehensive income** | **30,343** | 242,909 |

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

# Consolidated Statement of Changes in Equity

For the three-month period ended June 30
(unaudited)

| (in thousands of Canadian dollars) | Share capital | Contributed surplus | Retained earnings | Accumulated other comprehensive income (loss): Available-for-sale assets | Accumulated other comprehensive income (loss): Cash flow hedges | Accumulated other comprehensive income (loss): Total | Equity attributable to BDC's shareholder | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance as at March 31, 2016** | 2,288,400 | 27,778 | 3,003,483 | 957 | 2,855 | 3,812 | 5,323,473 | 26,046 | 5,349,519 |
| **Total comprehensive income** | | | | | | | | | |
| Net income | | | 93,902 | | | | 93,902 | (1,534) | 92,368 |
| Other comprehensive income (loss) | | | | | | | | | |
| Net change in unrealized gains (losses) on available-for-sale assets | | | | (1,046) | | (1,046) | (1,046) | | (1,046) |
| Net change in unrealized gains (losses) on cash flow hedges | | | | | (213) | (213) | (213) | | (213) |
| Remeasurements of net defined benefit asset or liability | | | (60,766) | | | | (60,766) | | (60,766) |
| Other comprehensive income (loss) | - | - | (60,766) | (1,046) | (213) | (1,259) | (62,025) | - | (62,025) |
| Total comprehensive income | - | - | 33,136 | (1,046) | (213) | (1,259) | 31,877 | (1,534) | 30,343 |
| Dividends on common shares | | | (68,649) | | | | (68,649) | | (68,649) |
| Distributions to non-controlling interests | | | | | | | | (940) | (940) |
| Capital injections from non-controlling interests | | | | | | | | 520 | 520 |
| Transactions with owner, recorded directly in equity | - | - | (68,649) | - | - | - | (68,649) | (420) | (69,069) |
| **Balance as at June 30, 2016** | 2,288,400 | 27,778 | 2,967,970 | (89) | 2,642 | 2,553 | 5,286,701 | 24,092 | 5,310,793 |

| (in thousands of Canadian dollars) | Share capital | Contributed surplus | Retained earnings | Accumulated other comprehensive income (loss): Available-for-sale assets | Accumulated other comprehensive income (loss): Cash flow hedges | Accumulated other comprehensive income (loss): Total | Equity attributable to BDC's shareholder | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance as at March 31, 2015** | 2,138,400 | 27,778 | 2,570,454 | 3,947 | 3,987 | 7,934 | 4,744,566 | 34,554 | 4,779,120 |
| Total comprehensive income | | | | | | | | | |
| Net income | | | 170,358 | | | | 170,358 | 652 | 171,010 |
| Other comprehensive income (loss) | | | | | | | | | |
| Net change in unrealized gains (losses) on available-for-sale assets | | | | (394) | | (394) | (394) | | (394) |
| Net change in unrealized gains (losses) on cash flow hedges | | | | | (1,092) | (1,092) | (1,092) | | (1,092) |
| Remeasurements of net defined benefit asset or liability | | | 73,385 | | | | 73,385 | | 73,385 |
| Other comprehensive income (loss) | - | - | 73,385 | (394) | (1,092) | (1,486) | 71,899 | - | 71,899 |
| Total comprehensive income | - | - | 243,743 | (394) | (1,092) | (1,486) | 242,257 | 652 | 242,909 |
| Issuance of shares | 150,000 | | | | | | 150,000 | | 150,000 |
| Dividends on common shares | | | (62,888) | | | | (62,888) | | (62,888) |
| Distributions to non-controlling interests | | | | | | | | (3,783) | (3,783) |
| Capital injections from non-controlling interests | | | | | | | | 732 | 732 |
| Transactions with owner, recorded directly in equity | 150,000 | - | (62,888) | - | - | - | 87,112 | (3,051) | 84,061 |
| **Balance as at June 30, 2015** | 2,288,400 | 27,778 | 2,751,309 | 3,553 | 2,895 | 6,448 | 5,073,935 | 32,155 | 5,106,090 |

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

# Consolidated Statement of Cash Flows

(unaudited)

| (in thousands of Canadian dollars) | Three months ended June 30 2016 | 2015 |
|---|---|---|
| **Operating activities** | | |
| Net income | **92,368** | 171,010 |
| Adjustments to determine net cash flows | | |
| Interest income | **(278,367)** | (271,200) |
| Interest expense | **19,466** | 23,194 |
| Net realized losses (gains) on investments | **3,935** | (2,879) |
| Provision for credit losses | **37,813** | 28,159 |
| Net change in unrealized depreciation (appreciation) on investments | **17,544** | (48,178) |
| Net unrealized foreign exchange losses (gains) on investments | **1,081** | 1,451 |
| Net unrealized losses (gains) on other financial instruments | **2,336** | (1,086) |
| Defined benefits funding in excess of amounts expensed | **(4,593)** | (3,751) |
| Depreciation of property and equipment, and amortization of intangible assets | **3,945** | 4,389 |
| Other | **(5,576)** | 2,332 |
| Interest expense paid | **(18,204)** | (20,156) |
| Interest income received | **272,417** | 265,643 |
| Disbursements for loans | **(1,394,892)** | (1,033,898) |
| Repayments of loans | **874,212** | 819,058 |
| Changes in operating assets and liabilities | | |
| Net change in accounts payable and accrued liabilities | **10,455** | 9,299 |
| Net change in other assets and other liabilities | **(2,549)** | (7,719) |
| **Net cash flows provided (used) by operating activities** | **(368,609)** | (64,332) |
| **Investing activities** | | |
| Disbursements for asset-backed securities | **(46,206)** | (79,462) |
| Repayments and proceeds on sale of asset-backed securities | **57,908** | 52,312 |
| Disbursements for subordinate financing investments | **(76,239)** | (54,737) |
| Repayments of subordinate financing investments | **27,152** | 33,268 |
| Disbursements for venture capital investments | **(45,724)** | (53,672) |
| Proceeds on sale of venture capital investments | **34,010** | 25,026 |
| Disbursements for venture capital action plan investments | **(68,455)** | (19,992) |
| Proceeds on sale of venture capital action plan investments | **54** | - |
| Acquisition of property and equipment | **(1,092)** | (1,789) |
| **Net cash flows provided (used) by investing activities** | **(118,592)** | (99,046) |
| **Financing activities** | | |
| Net change in short-term notes | **634,069** | 89,000 |
| Repayment of long-term notes | **(110,549)** | (26,898) |
| Distributions to non-controlling interests | **(940)** | (3,783) |
| Capital injections from non-controlling interests | **520** | 732 |
| Issue of common shares | **-** | 150,000 |
| Dividends paid on common shares | **(68,649)** | (62,888) |
| **Net cash flows provided (used) by financing activities** | **454,451** | 146,163 |
| **Net increase (decrease) in cash and cash equivalents** | **(32,750)** | (17,215) |
| **Cash and cash equivalents at beginning of period** | **680,093** | 667,084 |
| **Cash and cash equivalents at end of period** | **647,343** | 649,869 |

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

# Notes to the Consolidated Financial Statements
(unaudited, in thousands of Canadian dollars)

## 1.
## BDC General Description

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

The objectives of the Business Development Bank of Canada and its subsidiaries (together, BDC) are to promote and assist in the establishment and development of business enterprises in Canada, with a focus on small and medium-sized enterprises, by providing a range of complementary lending, investment and consulting 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.

## 2.
## Basis of Preparation

### Statement of compliance

BDC's condensed quarterly Consolidated Financial Statements are in compliance with the Standard on Quarterly Financial Reports for Crown Corporations, as required by the *Financial Administration* Act and issued by the Treasury Board of Canada Secretariat.

These condensed quarterly Consolidated Financial Statements have been prepared using International Financial Reporting Standards (IFRS) and were approved for issue by the Board of Directors on July 26, 2016.

### Basis of presentation and measurement

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

- available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss, 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 the plans' assets.

These condensed quarterly Consolidated Financial Statements are presented in Canadian dollars, which is BDC's functional currency as well as the functional currency of its subsidiaries. Unless otherwise specified, the figures presented in the 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 condensed quarterly Consolidated Financial Statements of BDC comprise the financial statements of the parent entity and the consolidated financial statements of the subsidiaries referred to above as of June 30, 2016, and March 31, 2016. The financial statements of the subsidiaries are prepared using uniform accounting policies and valuation methods for similar transactions.

### Subsidiaries

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

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

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

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

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

During fiscal 2014, having reached the end of their intended lives, AlterInvest Fund L.P. and AlterInvest Investment Fund Inc. began liquidating their investments. Those investments that were not reimbursed by their respective clients were transferred into AlterInvest II Fund L.P. As each partner has equal interest in all of the funds, their partnership interest in AlterInvest II Fund L.P. did not change as a result of these transactions. During fiscal 2015, all investments were fully liquidated, and these entities will be dissolved.

### 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 and each component of other comprehensive income are attributed to BDC's shareholder and to non-controlling interests in accordance with their respective shareholdings, even if this results in the non-controlling interests having a deficit balance.

### Associates

Associates are those entities in which BDC has significant influence, but not control, over the financial and operating policies. Subordinate financing and venture capital investments in associates that are held as part of BDC's investment portfolio by BDC Capital Inc. are carried in the 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 IAS 39, *Financial Instruments: Recognition and Measurement*.

## 3.
## Significant Accounting Policies

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

### Financial instruments

<u>Recognition and measurement of financial instruments</u>
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.

Financial instruments are measured in subsequent periods either at fair value or at amortized cost using the effective interest rate method, depending on the financial instrument classification.

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.

Classification of financial instruments

### *Fair value through profit or loss*

Financial instruments carried at fair value through profit or loss include financial instruments that are either (i) classified as held-for-trading or (ii) designated as at fair value through profit or loss upon initial recognition if they meet certain conditions.

*Financial instruments classified as held-for-trading*

A financial instrument is classified as held-for-trading if:

→ it is acquired or incurred principally for the purpose of selling or repurchasing instruments in the near term; or

→ at initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivative financial instruments are also classified as held-for-trading unless they are designated as hedging instruments.

*Financial instruments designated as at fair value through profit or loss*

A financial instrument can be designated as at fair value through profit or loss in the following circumstances:

→ the asset or liability is managed, evaluated and reported internally on a fair value basis;

→ the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise; or

→ the asset or 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 to initial recognition, financial instruments classified or designated as at 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 as:

→ net change in unrealized appreciation or depreciation of investments, or net unrealized foreign exchange gains or losses on investments, when related to asset-backed securities, subordinate financing, venture capital investments and venture capital action plan investments; or

→ net unrealized gains or losses on other financial instruments when related to derivatives and borrowings.

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

→ net realized gains or losses on investments when related to asset-backed securities, subordinate financing, venture capital investments and venture capital action plan investments; or

→ net realized gains or losses on other financial instruments when related to derivatives and borrowings.

### *Available-for-sale financial assets*

Available-for-sale assets are non-derivative financial assets that are:

- intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity, or changes in interest rates, exchange rates or equity prices; and
- not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Subsequent to initial recognition, available-for-sale assets are measured at fair value, with unrealized gains and losses recorded in other comprehensive income (OCI) until the asset is derecognized, with the exception of impairment losses, which are recorded in the Consolidated Statement of Income during the period in which the asset is determined to have become impaired.

Upon disposal of available-for-sale assets, the accumulated fair value adjustments recognized in OCI are reclassified to the Consolidated Statement of Income and are reported as net realized gains or losses on investments.

### *Cash flow hedges*

BDC designates certain derivatives held for risk management as cash flow hedges. BDC documents all hedging relationships and its risk management objectives, along with its strategy for carrying out the hedge transactions. BDC assesses whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flow of hedged items, both at inception and over the life of the hedge.

Subsequent to initial recognition, derivatives designated as cash flow hedges are measured at fair value. The effective portion of changes in fair value of these derivatives is recognized in OCI and accumulated other comprehensive income (AOCI), while changes related to the ineffective portion are recorded in the Consolidated Statement of Income as net unrealized gains or losses on other financial instruments. Amounts in AOCI are recycled to the Consolidated Statement of Income in the periods where the hedged items affect net income. They are recorded in the financial statement lines associated with the related hedged items.

If these hedging instruments expire, are sold or no longer meet the criteria for hedge accounting, the amounts previously recognized in OCI are reclassified to the Consolidated Statement of Income as net realized gains or losses on other financial instruments during the periods when the variability in the cash flows of the hedged item affects net income. However, if a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Consolidated Statement of Income under net realized gains or losses on other financial instruments.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method.

### *Financial liabilities measured at amortized cost*

Financial liabilities that are not carried at fair value through profit or loss fall into the financial liabilities category and are measured subsequently at amortized cost using the effective interest rate method.

<u>Major types of financial instruments</u>

### *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 have been classified as loans and receivables.

### *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 ABS are classified as available-for-sale assets and subordinated ABS notes are designated as at 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 on 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.

#### *Impairment of asset-backed securities*

At each reporting date, BDC reviews ABS classified as available-for-sale for possible impairments or reversals of previously recognized impairments. BDC determines that ABS are impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and when that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Refer to Note 5—*Significant Accounting Judgements, Estimates and Assumptions*, for more information regarding the criteria used to determine whether an impairment has occurred.

Impairment losses and reversals of impairment losses are recognized in the Consolidated Statement of Income during the period in which objective evidence of impairment or reversal of impairment is identified.

### *Loans*

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

#### *Allowance for credit losses*

The allowance for credit losses is maintained at a level considered adequate to absorb the credit losses existing in the portfolio at the financial reporting date. Allowances for credit losses are established at both the individual and collective levels.

BDC reviews its loan portfolio on an individual asset basis to assess credit risk and determines whether there is any objective evidence of impairment for which a loss should be recognized in the Consolidated Statement of Income. For BDC, there is objective evidence of impairment 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.

When a loan is deemed impaired, interest accrual recognition ceases and the carrying amount of the loan is reduced to 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 the time of impairment for floating rate loans. If cash flows cannot be reasonably determined, the estimated fair value of any underlying collateral is used, whether or not foreclosure is probable.

The carrying amounts of impaired loans are first reduced through the use of an allowance account, and then written off if and 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 credit losses in the Consolidated Statement of Income.

Loans for which an individual allowance has not been established are then included in groups of assets having similar credit risk characteristics and collectively assessed for any impairment that has been incurred but not yet identified.

Refer to Note 5—*Significant Accounting Judgements, Estimates and Assumptions*, for more information regarding the criteria used to determine the amount of the allowance.

### *Subordinate financing, venture capital and venture capital action plan investments*

Upon initial recognition, subordinate financing, venture capital and venture capital action plan (VCAP) investments are designated 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.

BDC's valuation process for fair value measurement of subordinate financing, venture capital and VCAP investments has been 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. VCAP includes 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.

### *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 have been designated as at fair value through profit or loss, as they contain embedded derivatives that would otherwise need to be separated, given that they significantly modify the cash flows required under the host debt contract.

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.

### *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 either designated as cash flow hedges or classified as held-for-trading.

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.

Embedded derivatives that are not closely related to the host contract must be separated and classified as held-for-trading financial instruments, unless the hybrid instrument is designated as at fair value through profit or loss. As at June 30, 2016, and March 31, 2016, BDC had no embedded derivatives that needed to be separated from a host contract.

Interest income, interest expense 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 using the effective interest rate method, with the exception of subordinate financing investments, 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 when it is probable that they will be received and the amounts can be measured reliably.

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.

Consulting revenue

Advisory Services provides consulting services to entrepreneurs. Consulting revenues are recognized as revenue when the services are rendered.

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 as** |
|---|---|---|
| Computer and telecommunications equipment | 4 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. The intangible assets' lives are finite and are amortized using the straight-line method 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. The amortization expense is included in other expenses in the Consolidated Statement of Income.

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.

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 of high-quality corporate and provincial bonds that have terms to maturity approximating the terms of the obligation.

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

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

Equity attributable to BDC's shareholder

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

Unrealized gains and losses on financial instruments classified as available-for-sale 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. 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.

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. Foreign exchange gains and losses are included in net income.

Segmented information

BDC has the following operating segments, which are based on differences in products and services: Financing, Growth & Transition Capital, Venture Capital, Advisory Services, Securitization and Venture Capital Action Plan.

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 in determining business segment performance.

# 4.

## Future Accounting Changes

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards had been published by the International Accounting Standards Board (IASB) but were not yet effective and had not been adopted early by BDC. These standards include IFRS 9, *Financial Instruments*, IFRS 15, *Revenue from Contracts with Customers*, and IFRS 16, *Leases*, 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.

### IFRS 9, Financial instruments

On July 24, 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*, bringing together the classification and measurement, impairment, and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. It amends classification and measurement of financial assets, adds new requirements for the accounting of financial liabilities and for general hedge accounting, and introduces a new expected loss impairment model. The IASB is continuing to work on its macro hedge accounting project. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, and shall be applied retrospectively, subject to certain exceptions.

BDC is currently assessing the impact of the adoption of IFRS 9.

### IFRS 15, Revenue from Contracts with Customers

On May 28, 2014, the IASB issued a new standard, IFRS 15, *Revenue from Contracts with Customers*, replacing IAS 18, *Revenue*. The new standard is effective for annual periods beginning on or after January 1, 2018. The core principle of the standard is that an entity will recognize revenue when it transfers promised goods or services to customers, in an amount that reflects the consideration to which the entity is expected to be entitled in exchange for those goods and services.

BDC is currently assessing the impact of the adoption of IFRS 15.

### IFRS 16, *Leases*

On January 13, 2016, the IASB issued a new standard, IFRS 16, *Leases*, which supersedes IAS 17, *Leases* and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The standard provides a single lessee accounting model requiring lessees to recognize assets and liabilities for all leases, unless the lease term is 12 months or less, or if the underlying asset has a low value. Lessors will continue classifying leases as operating or finance, since IFRS 16's approach to lessor accounting is substantially unchanged from IAS 17.

BDC is currently assessing the impact of the adoption of IFRS 16.

# 5.
## Significant Accounting Judgements, Estimates and Assumptions

Preparation of the condensed quarterly Consolidated Financial Statements as per 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 is summarized below.

**Estimates and assumptions**

Allowance for credit losses
The allowance for credit losses on loans represents management's estimate of the losses incurred in the loan portfolio at the reporting date and is established at both the individual and collective asset levels.

BDC reviews its loans individually to assess whether an impairment loss should be recorded. 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.

Loans that have been assessed individually and found not to be impaired, and all other loans, are then collectively assessed for any impairment that has been incurred but not yet identified. In assessing collective impairment, BDC uses statistical modelling of historical portfolio trends, such as default rates and loss rates, adjusted to reflect management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling.

Changes in these assumptions, or the use of other reasonable judgements, can materially affect the allowance level. Refer to Note 8—*Loans*, for more information on the allowance for credit losses.

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 6—*Classification and Fair Value of Financial Instruments*, for additional information on fair value hierarchy levels.

Qualifying hedge relationships
In designating financial instruments in qualifying hedge relationships, BDC has determined that it expects the hedges to be highly effective over the period of the hedging relationship. In accounting for derivatives as cash flow hedges, BDC has determined that the hedged cash flow exposure relates to highly probable future cash flows.

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.

**Judgements**

Impairment of available-for-sale assets
BDC determines that available-for-sale assets are impaired when there is objective evidence of impairment. Objective evidence that a financial asset or group of assets is impaired may include such events as the financial difficulty or probable bankruptcy or financial reorganization of the issuer, a default or adverse change in status or concession with respect to payments, measurable decreases in the estimated future cash flows from the assets, and a deterioration of correlated economic conditions. Since a combination of factors may cause an impairment, management judgement is required to determine if and when an impairment must be recognized.

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.

(unaudited, in thousands of Canadian dollars)

# 6.

## Classification and Fair Value of Financial Instruments

### Classification of Financial Instruments

The following tables summarize the classification of BDC's financial instruments as at June 30, 2016, and March 31, 2016.

| | | | | | | | | June 30, 2016 |
|---|---|---|---|---|---|---|---|---|
| | | Measured at fair value | | | | Measured at amortized cost | | |
| | | FVTPL[1] | | | | | | |
| | Note | Held-for-trading | Designated as at FVTPL | Available-for-sale | Cash flow hedges | Loans and receivables | Financial liabilities | Total |
| **Financial assets** | | | | | | | | |
| Cash and cash equivalents | | | | | | **647,343** | | **647,343** |
| Derivative assets | | **31,956** | | | **2,511** | | | **34,467** |
| Asset-backed securities | 7 | | **7,671** | **489,326** | | | | **496,997** |
| Loans | 8 | | | | | **20,216,724** | | **20,216,724** |
| Subordinate financing investments | 9 | | **797,040** | | | | | **797,040** |
| Venture capital investments | 10 | | **933,332** | | | | | **933,332** |
| Venture capital action plan investments | 11 | | **193,350** | | | | | **193,350** |
| Other assets[2] | | | | | | **11,230** | | **11,230** |
| **Total financial assets** | | **31,956** | **1,931,393** | **489,326** | **2,511** | **20,875,297** | **-** | **23,330,483** |
| **Financial liabilities** | | | | | | | | |
| Accounts payable and accrued liabilities | | | | | | | **107,421** | **107,421** |
| Derivative liabilities | | **3,954** | | | | | | **3,954** |
| Short-term notes | | | | | | | **17,482,026** | **17,482,026** |
| Long-term notes | | | **176,598** | | | | **54,539** | **231,137** |
| Other liabilities[2] | | | | | | | **28,344** | **28,344** |
| **Total financial liabilities** | | **3,954** | **176,598** | **-** | **-** | **-** | **17,672,330** | **17,852,882** |

| | | | | | | | | March 31, 2016 |
|---|---|---|---|---|---|---|---|---|
| | | Measured at fair value | | | | Measured at amortized cost | | |
| | | FVTPL[1] | | | | | | |
| | Note | Held-for-trading | Designated as at FVTPL | Available-for-sale | Cash flow hedges | Loans and receivables | Financial liabilities | Total |
| **Financial assets** | | | | | | | | |
| Cash and cash equivalents | | | | | | 680,093 | | 680,093 |
| Derivative assets | | 48,963 | | | 2,724 | | | 51,687 |
| Asset-backed securities | 7 | | 7,152 | 502,606 | | | | 509,758 |
| Loans | 8 | | | | | 19,717,706 | | 19,717,706 |
| Subordinate financing investments | 9 | | 751,404 | | | | | 751,404 |
| Venture capital investments | 10 | | 928,000 | | | | | 928,000 |
| Venture capital action plan investments | 11 | | 137,668 | | | | | 137,668 |
| Other assets[2] | | | | | | 9,350 | | 9,350 |
| **Total financial assets** | | 48,963 | 1,824,224 | 502,606 | 2,724 | 20,407,149 | - | 22,785,666 |
| **Financial liabilities** | | | | | | | | |
| Accounts payable and accrued liabilities | | | | | | | 96,966 | 96,966 |
| Derivative liabilities | | 4,068 | | | 9 | | | 4,077 |
| Short-term notes | | | | | | | 16,848,041 | 16,848,041 |
| Long-term notes | | | 251,916 | | | | 98,352 | 350,268 |
| Other liabilities[2] | | | | | | | 28,908 | 28,908 |
| **Total financial liabilities** | | 4,068 | 251,916 | - | 9 | - | 17,072,267 | 17,328,260 |

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

(unaudited, in thousands of Canadian dollars)

### Fair Value of Financial Instruments

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

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

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

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

| | | | | **June 30, 2016** |
|---|---|---|---|---|
| | **Fair value measurements using** | | | **Total** |
| | **Level 1** | **Level 2** | **Level 3** | **fair value** |
| **Assets** | | | | |
| Derivative assets | | **34,467** | | **34,467** |
| Asset-backed securities | | **496,997** | | **496,997** |
| Subordinate financing investments | **824** | | **796,216** | **797,040** |
| Venture capital investments | **14,730** | | **918,602** | **933,332** |
| Venture capital action plan investments | | | **193,350** | **193,350** |
| | **15,554** | **531,464** | **1,908,168** | **2,455,186** |
| **Liabilities** | | | | |
| Derivative liabilities | | **3,954** | | **3,954** |
| Long-term notes designated as at FVTPL(1) | | **176,598** | | **176,598** |
| | **-** | **180,552** | **-** | **180,552** |

| | | | | March 31, 2016 |
|---|---|---|---|---|
| | Fair value measurements using | | | Total |
| | Level 1 | Level 2 | Level 3 | fair value |
| **Assets** | | | | |
| Derivative assets | | 51,687 | | 51,687 |
| Asset-backed securities | | 509,758 | | 509,758 |
| Subordinate financing investments | 824 | | 750,580 | 751,404 |
| Venture capital investments | 11,905 | | 916,095 | 928,000 |
| Venture capital action plan investments | | | 137,668 | 137,668 |
| | 12,729 | 561,445 | 1,804,343 | 2,378,517 |
| **Liabilities** | | | | |
| Derivative liabilities | | 4,077 | | 4,077 |
| Long-term notes designated as at FVTPL(1) | | 251,916 | | 251,916 |
| | - | 255,993 | - | 255,993 |

(1) Fair value through profit or loss.

(unaudited, in thousands of Canadian dollars)

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

| **June 30, 2016** | **Subordinate financing investments** | **Venture capital investments** | **Venture capital action plan investments** | **Total** |
|---|---|---|---|---|
| Fair value as at April 1, 2016 | **750,580** | **916,095** | **137,668** | **1,804,343** |
| Net realized gains (losses) on investments | **(2,201)** | **(1,521)** | **-** | **(3,722)** |
| Net change in unrealized appreciation (depreciation) of investments | **(1,253)** | **(6,796)** | **(12,697)** | **(20,746)** |
| Net unrealized foreign exchange gains (losses) on investments | **-** | **(1,057)** | **(23)** | **(1,080)** |
| Disbursements for investments | **76,239** | **45,724** | **68,455** | **190,418** |
| Repayments of investments and other | **(27,149)** | **(33,843)** | **(53)** | **(61,045)** |
| Transfers from level 3 to level 1 | **-** | **-** | **-** | **-** |
| **Fair value as at June 30, 2016** | **796,216** | **918,602** | **193,350** | **1,908,168** |

| March 31, 2016 | Subordinate financing investments | Venture capital investments | Venture capital action plan investments | Total |
|---|---|---|---|---|
| Fair value as at April 1, 2015 | 642,203 | 707,768 | 47,643 | 1,397,614 |
| Net realized gains (losses) on investments | 394 | (6,545) | - | (6,151) |
| Net change in unrealized appreciation (depreciation) of investments | 258 | 82,792 | 3,958 | 87,008 |
| Net unrealized foreign exchange gains (losses) on investments | - | 8,258 | (71) | 8,187 |
| Disbursements for investments | 254,076 | 228,915 | 86,367 | 569,358 |
| Repayments of investments and other | (146,351) | (95,478) | (229) | (242,058) |
| Transfers from level 3 to level 1 | - | (9,615) | - | (9,615) |
| **Fair value as at March 31, 2016** | 750,580 | 916,095 | 137,668 | 1,804,343 |

(unaudited, in thousands of Canadian dollars)

# 7.
## Asset-Backed Securities

| | June 30, 2016 | March 31, 2016 |
|---|---|---|
| **Available-for-sale** | | |
| Principal amount | **489,415** | 501,649 |
| Cumulative fair value appreciation (depreciation) | **(89)** | 957 |
| Carrying value | **489,326** | 502,606 |
| Yield | **1.78%** | 1.77% |
| **Fair value through profit or loss** | | |
| Principal amount | **7,628** | 7,105 |
| Cumulative fair value appreciation (depreciation) | **43** | 47 |
| Carrying value | **7,671** | 7,152 |
| Yield | **6.91%** | 6.95% |
| **Asset-backed securities** | **496,997** | 509,758 |

No asset-backed securities were impaired as at June 30 or March 31, 2016.

# 8.
## Loans

The following tables provide loans outstanding by contractual maturity date.

| | Within 1 year | 1 to 5 years | Over 5 years | Total gross amount | Collective allowance | Individual allowance | Total allowance | Total net amount |
|---|---|---|---|---|---|---|---|---|
| Performing | **266,414** | **2,364,826** | **17,617,628** | **20,248,868** | **(395,000)** | **-** | **(395,000)** | **19,853,868** |
| Impaired | **23,369** | **84,956** | **488,039** | **596,364** | **-** | **(233,508)** | **(233,508)** | **362,856** |
| **Loans as at June 30, 2016** | **289,783** | **2,449,782** | **18,105,667** | **20,845,232** | **(395,000)** | **(233,508)** | **(628,508)** | **20,216,724** |

| | Within 1 year | 1 to 5 years | Over 5 years | Total gross amount | Collective allowance | Individual allowance | Total allowance | Total net amount |
|---|---|---|---|---|---|---|---|---|
| Performing | 220,222 | 2,292,473 | 17,256,082 | 19,768,777 | (390,000) | - | (390,000) | 19,378,777 |
| Impaired | 19,837 | 74,442 | 460,374 | 554,653 | - | (215,724) | (215,724) | 338,929 |
| Loans as at March 31, 2016 | 240,059 | 2,366,915 | 17,716,456 | 20,323,430 | (390,000) | (215,724) | (605,724) | 19,717,706 |

### Allowance for credit losses

| | June 30, 2016 | March 31, 2016 |
|---|---|---|
| Balance at beginning of period | **605,724** | 529,923 |
| Write-offs | **(14,887)** | (81,127) |
| Effect of discounting | **(3,368)** | (13,395) |
| Recoveries and other | **3,226** | 9,414 |
| | **590,695** | 444,815 |
| Provision for credit losses | **37,813** | 160,909 |
| **Balance at end of period** | **628,508** | 605,724 |

(unaudited, in thousands of Canadian dollars)

### Concentrations of total loans outstanding

| Geographic distribution | June 30, 2016 | March 31, 2016 |
|---|---|---|
| Newfoundland and Labrador | **854,480** | 849,591 |
| Prince Edward Island | **55,484** | 56,456 |
| Nova Scotia | **532,154** | 528,651 |
| New Brunswick | **456,695** | 467,311 |
| Quebec | **6,604,192** | 6,496,866 |
| Ontario | **5,463,493** | 5,242,987 |
| Manitoba | **642,164** | 653,069 |
| Saskatchewan | **722,169** | 701,224 |
| Alberta | **3,112,961** | 3,000,998 |
| British Columbia | **2,268,576** | 2,200,621 |
| Yukon | **101,840** | 95,400 |
| Northwest Territories and Nunavut | **31,024** | 30,256 |
| **Total loans outstanding** | **20,845,232** | 20,323,430 |

| Industry sector | June 30, 2016 | March 31, 2016 |
|---|---|---|
| Manufacturing | **4,620,353** | 4,503,108 |
| Wholesale and retail trade | **4,131,125** | 4,109,247 |
| Service industries | **2,795,447** | 2,681,948 |
| Tourism | **2,607,142** | 2,562,826 |
| Commercial properties | **2,192,072** | 2,166,365 |
| Construction | **1,783,646** | 1,714,697 |
| Transportation and storage | **1,246,159** | 1,221,123 |
| Resources | **880,866** | 811,028 |
| Other | **588,422** | 553,088 |
| **Total loans outstanding** | **20,845,232** | 20,323,430 |

(unaudited, in thousands of Canadian dollars)

# 9.

## 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 June 30, 2016** | **83,436** | **605,161** | **124,342** | **812,939** | **797,040** |
| As at March 31, 2016 | 76,089 | 565,188 | 124,772 | 766,049 | 751,404 |

### Concentrations of total subordinate financing investments

| | | **June 30, 2016** | | March 31, 2016 |
|---|---|---|---|---|
| **Geographic distribution** | **Fair value** | **Cost** | Fair value | Cost |
| Newfoundland and Labrador | **6,254** | **6,775** | 5,252 | 5,773 |
| Nova Scotia | **16,638** | **16,783** | 16,963 | 17,108 |
| New Brunswick | **28,927** | **25,218** | 29,135 | 25,426 |
| Quebec | **320,180** | **338,831** | 302,632 | 319,494 |
| Ontario | **270,856** | **270,669** | 262,383 | 260,106 |
| Manitoba | **13,270** | **7,263** | 14,097 | 7,260 |
| Saskatchewan | **15,905** | **15,479** | 14,957 | 14,529 |
| Alberta | **85,502** | **90,363** | 72,650 | 80,877 |
| British Columbia | **35,949** | **37,798** | 29,776 | 31,715 |
| Yukon | **2,548** | **2,656** | 2,548 | 2,656 |
| Northwest Territories and Nunavut | **1,011** | **1,104** | 1,011 | 1,105 |
| **Subordinate financing investments** | **797,040** | **812,939** | 751,404 | 766,049 |

| | | **June 30, 2016** | | March 31, 2016 |
|---|---|---|---|---|
| **Industry sector** | **Fair value** | **Cost** | Fair value | Cost |
| Manufacturing | **259,729** | **268,254** | 259,348 | 267,869 |
| Service industries | **180,182** | **190,614** | 170,955 | 179,235 |
| Wholesale and retail trade | **146,218** | **147,876** | 133,656 | 135,052 |
| Construction | **67,231** | **60,471** | 68,130 | 60,652 |
| Resources | **58,875** | **62,821** | 45,820 | 53,125 |
| Information industries | **36,765** | **37,128** | 28,237 | 28,473 |
| Transportation and storage | **14,191** | **14,691** | 10,350 | 10,850 |
| Tourism | **7,423** | **8,060** | 5,229 | 5,866 |
| Educational services | **2,674** | **2,605** | 2,796 | 2,728 |
| Other | **23,752** | **20,419** | 26,883 | 22,199 |
| **Subordinate financing investments** | **797,040** | **812,939** | 751,404 | 766,049 |

(unaudited, in thousands of Canadian dollars)

# 10.
## Venture Capital Investments

BDC maintains a high-risk portfolio of venture capital investments that is focused on early-stage and fast-growing technology companies having promising positions in their respective marketplaces and strong growth potential. The concentrations and investment types of venture capital investments are listed below.

| | | **June 30, 2016** | | March 31, 2016 |
|---|---|---|---|---|
| **Industry sector** | **Fair value** | **Cost** | Fair value | Cost |
| Information technology | **206,218** | **193,913** | 200,706 | 188,322 |
| Biotechnology and pharmacology | **156,890** | **123,348** | 140,414 | 102,042 |
| Electronics | **75,032** | **83,251** | 81,986 | 92,041 |
| Communications | **43,577** | **43,372** | 43,887 | 43,484 |
| Medical and health | **39,500** | **53,639** | 40,763 | 52,739 |
| Energy | **11,456** | **9,762** | 23,457 | 26,073 |
| Industrial | **10,660** | **14,316** | 12,135 | 17,785 |
| Other | **8,500** | **8,495** | 9,506 | 8,495 |
| Total direct investments | **551,833** | **530,096** | 552,854 | 530,981 |
| Funds | **381,499** | **298,136** | 375,146 | 287,271 |
| **Venture capital investments** | **933,332** | **828,232** | 928,000 | 818,252 |

| | | **June 30, 2016** | | March 31, 2016 |
|---|---|---|---|---|
| **Investment type** | **Fair value** | **Cost** | Fair value | Cost |
| Common shares | **61,071** | **77,422** | 60,298 | 80,567 |
| Preferred shares | **444,748** | **399,107** | 438,341 | 394,025 |
| Debentures | **46,014** | **53,567** | 54,215 | 56,389 |
| Total direct investments | **551,833** | **530,096** | 552,854 | 530,981 |
| Funds | **381,499** | **298,136** | 375,146 | 287,271 |
| **Venture capital investments** | **933,332** | **828,232** | 928,000 | 818,252 |

# 11.
## Venture Capital Action Plan Investments

Venture Capital Action Plan is a federal government initiative to invest $400 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.

As at June 30, 2016, the fair value of venture capital action plan investments stood at $193,350 ($137,668 as at March 31, 2016), and their cost was $206,307 ($137,905 as at March 31, 2016).

# 12.
## Share Capital

An unlimited number of common shares, having a par value of $100 each, is authorized. As at June 30, 2016, there were 22,884,000 common shares outstanding (22,884,000 as at March 31, 2016).

### Statutory limitations

As per the BDC Act, the debt-to-equity ratio cannot exceed 12:1. 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 exceed $3.0 billion. As at June 30, and March 31, 2016, BDC met both of these statutory limitation requirements.

### Capital adequacy

Treasury Board of Canada Secretariat provides guidelines to BDC on its capital adequacy ratios. BDC must maintain overall capital and allowance for credit losses sufficient to ensure that BDC can withstand unfavourable economic circumstances without requiring additional government funding. During the three-month period ended June 30, 2016, and for the fiscal year ended March 31, 2016, BDC complied with its capital adequacy guidelines.

# 13.
## Segmented Information

BDC has six reportable segments, as described below, which are the Bank's business lines. Each business line offers different products and services, and is managed separately based on BDC's management and internal reporting structure.

The following summary describes the operations of 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.
- **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.
- **Advisory Services** provides consulting services, supports high-impact firms and provides group programs and other services related to business activities.
- **Securitization** 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. BDC also provides fully secured loans to small and medium-sized finance and leasing companies.
- **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.

The assumptions and methodologies used in BDC's reporting framework are periodically reviewed by management to ensure they remain valid. BDC's main allocation methods 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 internal capital adequacy assessment process and is consistently aligned with the economic risks of each specific business segment.

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

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

(unaudited, in thousands of Canadian dollars)

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

Three months ended June 30, 2016

| | BDC | Financing | Growth & Transition Capital | Venture Capital | Advisory Services | Securitization | Venture Capital Action Plan |
|---|---|---|---|---|---|---|---|
| Interest income | **278,367** | 258,922 | 17,060 | - | - | 2,385 | - |
| Interest expense | **19,466** | 17,494 | 1,039 | - | - | 933 | - |
| **Net interest income** | **258,901** | **241,428** | **16,021** | **-** | **-** | **1,452** | **-** |
| Net realized gains (losses) on investments | **(3,935)** | - | (2,201) | (1,734) | - | - | - |
| Consulting revenue | **4,292** | - | - | - | 4,292 | - | - |
| Fee and other income | **12,752** | 7,537 | 4,508 | 573 | 36 | 22 | 76 |
| Net realized gains (losses) on other financial instruments | **2,037** | 1,934 | - | 103 | - | - | - |
| **Net revenue (loss)** | **274,047** | **250,899** | **18,328** | **(1,058)** | **4,328** | **1,474** | **76** |
| Provision for credit losses | **(37,813)** | (37,813) | - | - | - | - | - |
| Net change in unrealized appreciation (depreciation) of investments | **(17,544)** | - | (1,253) | (3,590) | - | (4) | (12,697) |
| Net unrealized foreign exchange gains (losses) on investments | **(1,081)** | - | | (1,058) | - | - | (23) |
| Net unrealized gains (losses) on other financial instruments | **(2,336)** | (2,145) | - | (191) | - | - | - |
| **Income (loss) before operating and administrative expenses** | **215,273** | **210,941** | **17,075** | **(5,897)** | **4,328** | **1,470** | **(12,644)** |
| Salaries and benefits | **86,320** | 65,051 | 6,861 | 3,689 | 10,114 | 500 | 105 |
| Premises and equipment | **10,150** | 8,281 | 408 | 455 | 946 | 47 | 13 |
| Other expenses | **26,435** | 20,941 | 704 | 879 | 3,839 | 60 | 12 |
| **Operating and administrative expenses** | **122,905** | **94,273** | **7,973** | **5,023** | **14,899** | **607** | **130** |
| **Net income (loss)** | **92,368** | **116,668** | **9,102** | **(10,920)** | **(10,571)** | **863** | **(12,774)** |
| **Net income (loss) attributable to:** | | | | | | | |
| BDC's shareholder | **93,902** | 116,668 | 9,083 | (9,367) | (10,571) | 863 | (12,774) |
| Non-controlling interests | **(1,534)** | - | 19 | (1,553) | - | - | - |
| **Net income (loss)** | **92,368** | **116,668** | **9,102** | **(10,920)** | **(10,571)** | **863** | **(12,774)** |
| **Business segment portfolio at end of period** | **22,637,443** | **20,199,121** | **797,040** | **933,332** | **-** | **514,600[1]** | **193,350** |

[1] Securitization's portfolio at the end of the period included $17,603 in loans and $496,997 in asset-backed securities.

Three months ended June 30, 2015

| | BDC | Financing | Growth & Transition Capital | Venture Capital | Advisory Services | Securitization | Venture Capital Action Plan |
|---|---|---|---|---|---|---|---|
| Interest income | **271,200** | 253,962 | 15,148 | - | - | 2,090 | - |
| Interest expense | **23,194** | 20,888 | 1,315 | - | - | 991 | - |
| **Net interest income** | **248,006** | **233,074** | **13,833** | **-** | **-** | **1,099** | **-** |
| Net realized gains (losses) on investments | **2,879** | - | 170 | 2,709 | - | - | - |
| Consulting revenue | **3,554** | - | - | - | 3,554 | - | - |
| Fee and other income | **9,474** | 3,782 | 5,400 | 276 | - | 5 | 11 |
| Net realized gains (losses) on other financial instruments | **399** | 225 | - | 174 | - | - | - |
| **Net revenue (loss)** | **264,312** | **237,081** | **19,403** | **3,159** | **3,554** | **1,104** | **11** |
| Provision for credit losses | **(28,159)** | (28,159) | - | - | - | - | - |
| Net change in unrealized appreciation (depreciation) of investments | **48,178** | - | (7,032) | 57,715 | - | (7) | (2,498) |
| Net unrealized foreign exchange gains (losses) on investments | **(1,451)** | - | - | (1,451) | - | - | - |
| Net unrealized gains (losses) on other financial instruments | **1,086** | 982 | - | 104 | - | - | - |
| **Income (loss) before operating and administrative expenses** | **283,966** | **209,904** | **12,371** | **59,527** | **3,554** | **1,097** | **(2,487)** |
| Salaries and benefits | **81,249** | 63,205 | 6,024 | 3,880 | 7,520 | 435 | 185 |
| Premises and equipment | **9,490** | 8,047 | 435 | 373 | 590 | 32 | 13 |
| Other expenses | **22,217** | 17,299 | 812 | 1,027 | 2,999 | 48 | 32 |
| **Operating and administrative expenses** | **112,956** | **88,551** | **7,271** | **5,280** | **11,109** | **515** | **230** |
| **Net income (loss)** | **171,010** | **121,353** | **5,100** | **54,247** | **(7,555)** | **582** | **(2,717)** |
| **Net income (loss) attributable to:** | | | | | | | |
| BDC's shareholder | **170,358** | 121,353 | 4,809 | 53,886 | (7,555) | 582 | (2,717) |
| Non-controlling interests | **652** | - | 291 | 361 | - | - | - |
| **Net income (loss)** | **171,010** | **121,353** | **5,100** | **54,247** | **(7,555)** | **582** | **(2,717)** |
| **Business segment portfolio at end of period** | **20,558,155** | **18,596,721** | **657,240** | **797,340** | **-** | **441,717[1]** | **65,137** |

[1] Securitization's portfolio at the end of the period included $7,218 in loans and $434,499 in asset-backed securities.

(unaudited, in thousands of Canadian dollars)

# 14.
## Guarantees

BDC issues "letters of credit, loan guarantees and portfolio guarantees" (guarantees) to support businesses. Those guarantees represent BDC's obligation to make payments to third parties if clients are unable to meet their contractual commitments. Collateral requirements for guarantees are consistent with BDC collateral requirements for loans. The fee income earned is calculated on a straight-line basis over the life of the instrument and recognized in fee and other income in the Consolidated Statement of Income. The maximum contractual obligation under the guarantees totalled $342.3 million as at June 30, 2016 ($352.4 million as at March 31, 2016) and the existing terms expire within 160 months (within 163 months as at March 31, 2016). However, the actual exposure as at June 30, 2016, was $21.9 million ($17.8 million as at March 31, 2016).

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 June 30, 2016, and March 31, 2016, there were no liabilities recognized in BDC's Consolidated Statement of Financial Position related to these guarantees.

# 15.
## Commitments

### Loans

Undisbursed amounts of authorized loans totalled $2,542,119 as at June 30, 2016 ($983,077 fixed rate; $1,559,042 floating rate) and are expected to be disbursed within the next 12 months. The weighted average effective interest rate was 4.4% on loan commitments (4.4% as at March 31, 2016). The following tables present undisbursed amounts of authorized loans, by location and industry.

| **Commitments, by geographic distribution** | **June 30, 2016** | March 31, 2016 |
|---|---|---|
| Newfoundland and Labrador | **90,271** | 63,612 |
| Prince Edward Island | **685** | 544 |
| Nova Scotia | **34,999** | 34,865 |
| New Brunswick | **36,273** | 19,884 |
| Quebec | **649,522** | 545,850 |
| Ontario | **697,204** | 685,774 |
| Manitoba | **85,382** | 55,091 |
| Saskatchewan | **41,787** | 53,655 |
| Alberta | **563,957** | 546,708 |
| British Columbia | **338,119** | 240,861 |
| Yukon | **2,294** | 1,298 |
| Northwest Territories and Nunavut | **1,626** | 2,528 |
| **Total** | **2,542,119** | 2,250,670 |

(unaudited, in thousands of Canadian dollars)

| Commitments, by industry sector | June 30, 2016 | March 31, 2016 |
|---|---|---|
| Manufacturing | **641,916** | 572,285 |
| Construction | **308,071** | 268,499 |
| Tourism | **307,979** | 278,287 |
| Wholesale and retail trade | **305,369** | 291,608 |
| Service industries | **291,731** | 229,252 |
| Resources | **276,642** | 258,051 |
| Transportation and storage | **171,551** | 172,942 |
| Commercial properties | **137,451** | 70,284 |
| Other | **101,409** | 109,462 |
| **Total** | **2,542,119** | 2,250,670 |

## Subordinate financing

Undisbursed amounts of authorized investments totalled $76,560 at June 30, 2016 ($46,675 fixed rate; $29,885 floating rate) and are expected to be disbursed within the next 12 months. The weighted average effective interest rate (excluding non-interest returns) was 10.9% on investment commitments (10.8% at March 31, 2016). The following tables present undisbursed amounts of authorized investments, by location and industry.

| Commitments, by geographic distribution | June 30, 2016 | March 31, 2016 |
|---|---|---|
| Newfoundland and Labrador | **209** | 1,209 |
| Nova Scotia | **665** | 750 |
| Quebec | **12,737** | 15,131 |
| Ontario | **45,958** | 35,571 |
| Manitoba | **5,000** | - |
| Saskatchewan | **2,000** | - |
| Alberta | **7,291** | 16,200 |
| British Columbia | **2,700** | 3,455 |
| **Total** | **76,560** | 72,316 |

| Commitments, by industry sector | June 30, 2016 | March 31, 2016 |
|---|---|---|
| Manufacturing | **27,487** | 28,796 |
| Service industries | **20,070** | 9,720 |
| Construction | **12,500** | 1,650 |
| Information industries | **5,720** | 8,425 |
| Resources | **5,091** | 14,750 |
| Wholesale and retail trade | **3,740** | 2,675 |
| Tourism | **1,652** | 3,900 |
| Transportation and storage | **300** | 2,400 |
| **Total** | **76,560** | 72,316 |

(unaudited, in thousands of Canadian dollars)

### Venture capital

Undisbursed amounts of authorized venture capital investments totalled $343,274 as at June 30, 2016, and were related to the following industry sectors.

| Industry sector | June 30, 2016 | March 31, 2016 |
|---|---|---|
| Biotechnology and pharmacology | **7,126** | 16,030 |
| Medical and health | **4,000** | 4,000 |
| Electronics | **3,779** | 4,811 |
| Information technology | **1,722** | 1,914 |
| Communications | **365** | - |
| Industrial | **100** | - |
| Total direct investments | **17,092** | 26,755 |
| External funds | **326,182** | 333,314 |
| **Venture capital investments** | **343,274** | 360,069 |

### Venture capital action plan

Undisbursed amounts of authorized venture capital action plan investments totalled $183,852 as at June 30, 2016 ($252,254 as at March 31, 2016).

### Asset-backed securities

Undisbursed amount of authorized asset-backed securities totalled $308,000 as at June 30, 2016 ($297,000 as at March 31, 2016).

### Leases

BDC has future minimum lease commitments under operating leases related to the rental of premises.

# 16.
## Related Party Transactions

As at June 30, 2016, BDC had $17,478.0 million outstanding in short-term notes and $54.4 million outstanding in long-term notes (excluding accrued interest) with Her Majesty the Queen in Right of Canada acting through the Minister of Finance ($16,844.0 million in short-term notes and $98.1 million in long-term notes as at March 31, 2016).

Accrued interest on borrowings included $3.2 million payable to the Minister of Finance as at June 30, 2016 ($3.2 million as at March 31, 2016).

BDC recorded $20.0 million in interest expense, related to the borrowings from the Minister of Finance, for the first quarter. Last year's comparative figure for the same period was $23.4 million.

In addition, no borrowings with the Minister of Finance were repurchased in the first quarter of fiscal 2017 and fiscal 2016.

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.

# 17.
## Comparative Figures

Certain comparative figures have been reclassified to conform to the current quarter's presentation.

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