



**financing.
advising.
smarts.**

**2019
Annual
Report**

The only bank **devoted exclusively** to entrepreneurs

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Fiscal 2019 by the numbers

60,000 clients,
a 7% increase compared to previous year

123

business centres
across Canada

7.5

million visits
to bdc.ca

94%

client satisfaction

\$35B

in capital committed to
small and medium-sized businesses

\$885.6M

in net income



\$900M

committed to financing
business transitions

\$564M

lent to majority-owned
women businesses

\$153M

deployed to cleantech firms

\$2.1B

committed in Venture Capital

Message from the Chairperson of the Board of Directors

BDC had an outstanding year in fulfilling its unique mission of helping Canadian businesses grow and succeed. BDC reached more entrepreneurs and had a greater impact on businesses in every industry and every part of Canada.



I am pleased to present BDC's annual report for fiscal 2019.

This was my first year as Chairperson of the Board and my experiences confirmed what I believed about BDC when I accepted this position. BDC does a truly remarkable job of supporting entrepreneurs across our country, and, in doing so, makes an essential contribution to Canada's economic vitality and prosperity.

I have been especially impressed by the talent, dedication and innovative spirit of BDC's 2,300 employees. Their willingness to embrace change has allowed BDC to remain top of mind for entrepreneurs as their expectations evolve in a fast-changing business environment.

In particular, BDC has enjoyed considerable **success in digitizing its operations**, including through the use of iPad to speed up service to entrepreneurs. The Bank has developed custom iOS applications, including one that has allowed its account managers to save eight hours on every loan they authorize. Entrepreneurs also now have **24-hour access** to a newly created Client Space portal.

Strong financial results

BDC continued its mission of supporting Canadian entrepreneurs while delivering the excellent financial results you will find in this annual report. BDC is stable, profitable and constantly striving to improve its products and services for the benefit of entrepreneurs. The results are the fruit of the vision and hard work of President and CEO Michael Denham, the senior management team and the employees. On behalf of the Board of Directors, I extend our sincere thanks to them.

The board of directors had an equally successful year in providing **effective corporate governance and stewardship** for BDC. I wish to thank my board colleagues for their wise counsel, dedication and integrity in setting BDC's strategic direction in consultation with management, and ensuring the Bank continues to adhere to the highest standards of risk management and ethical behaviour.

Key board activities in fiscal 2019

- > One of the Board's main areas of focus was overseeing the **Bank's digital strategy** to modernize its interactions with entrepreneurs and make it easier for them to do business with BDC. This work is well underway.
- > BDC is a different kind of bank, and one of its most important differences is the advice it provides to entrepreneurs through **Advisory Services**.

A Statistics Canada analysis found that BDC clients – especially those who received both advisory services and financing – saw higher revenue growth than non-clients. The board paid close attention this year to management’s efforts to refine the offerings of Advisory Services. In particular, we saw strong progress made in providing mentoring, coaching and leadership training to high-impact firms through the **Growth Driver Program** and BDC’s participation in the federal government’s **Accelerated Growth Service**.

- > Under the board’s supervision, BDC addressed areas identified by the Office of the Superintendent of Financial Institutions for improvement in order to optimize risk management practices and control environment. Separately, BDC’s joint auditors, the Office of the Auditor General of Canada and Deloitte, completed a special examination in accordance with the Financial Administration Act. The report confirmed that BDC has the necessary systems and practices in place to fulfill its mandate.

Delivering on key shareholder priorities

The board oversaw BDC’s efforts to support key priorities and initiatives of the Government of Canada, its sole shareholder. These included bolstering Canada’s innovation ecosystem, extending greater support to women entrepreneurs and accelerating the growth of Canada’s cleantech industry.

- > The **Venture Capital Catalyst Initiative (VCCI)**, announced in the 2017 federal budget, aims to make \$400 million available to increase late-stage venture capital to entrepreneurs. An additional \$50 million was added in the 2018 budget. With funds from the private sector, these investments could inject \$1.6 billion into Canada’s innovation ecosystem. The Board authorized investments in four funds of funds in fiscal 2019 and the board investment committee authorized investments in four direct funds as part of this program.
- > BDC continued to support the development of the Government’s Women Entrepreneurship Strategy which aims to double the number of women-owned businesses by 2025. Meanwhile, BDC took its own specific initiative to advance women entrepreneurship in Canada. For example, it has committed to providing **\$1.4 billion in financing to women-led businesses** over three years to fiscal 2021.

BDC Capital’s **Women in Technology (WIT) Venture Fund** completed its first year of operation since having its size almost tripled, making it the largest venture fund of its kind in the world.

- > BDC’s **Cleantech Practice** also committed to deploying \$600 million over five years (2018-2023) in loans and equity to help support the growth of globally competitive environmentally impactful businesses. A total of \$153 million was deployed so far under this initiative.

Keeping the momentum going forward

This year, we continued our tradition of holding board meetings in different parts of Canada. This allows us not only to appreciate the talent and ambition of BDC employees, but also to hear about the challenges and opportunities our entrepreneurs face.

Canadian entrepreneurs told us that they need fast, simple access to financing. They need support to innovate, achieve productivity gains and scale their business. Asset-light high-growth companies also need increased support and capital. We also realized that some entrepreneurs such as women, new Canadians, Indigenous peoples, are still facing significant barriers when trying to build and grow a business. BDC will focus on these areas of particular importance for entrepreneurs’ success.

The Bank already has the building blocks of its digital strategy and is well positioned to continue its digital transformation into the next fiscal.

I am impressed by the momentum BDC has built and, together with my board colleagues, I look forward to the future with confidence. BDC has the expertise, resources and leadership to support entrepreneurs in creating innovative, competitive, growing businesses for the benefit of all Canadians.

Sincerely,



Mike Pedersen
Chairperson of the Board

Message from the President and CEO

At BDC, we strive to support entrepreneurs at every step of their growth. To this end, our focus is to simplify access to our services and move at the speed of entrepreneurs.



As the only bank in the country devoted exclusively to entrepreneurs, we know how demanding it is to run a business. That's why we have a responsibility to work as hard and as fast as entrepreneurs do.

We made great strides in fiscal 2019 in becoming more agile and responsive to business owners whose needs and expectations are constantly evolving. One sign of our success is that we now serve a record 60,000 business owners, all across Canada, in all industries and at all stages of growth.

Some 94% of these clients say they are satisfied with our services, and we are rated among the most trusted financial institutions in the country by entrepreneurs.

We are offering them a one-stop shop to get the financial resources and advice they need at every stage of their businesses' development.

And we are making a difference. The entrepreneurs we work with employ almost one million people and generate over \$350 billion in sales in most industries and all regions of Canada. We are proud to see that our combination of loans, advice and capital is helping them grow, innovate and compete internationally.

Our clients accepted \$7.2 billion in loans during the last fiscal year, an increase of 5.9% compared to the previous year. In all, we have almost \$35 billion in capital committed to small and medium-sized businesses.

Moving at the speed of entrepreneurs

As technology reshapes the financial services industry and as client expectations evolve, BDC needs to change. Consequently, we have made big investments in automating our processes and **enhancing our use of digital technologies.**

- > All of our 600 account managers are equipped with mobile devices. Thanks to our flagship app, **BDC Express Loan**, they can authorize loans of up to \$750,000 in less than 30 minutes during a single visit at the client's place of business. So far, we authorized more than 3,000 Express Loans and saved nearly 26,000 hours of manual work.
- > Business owners can also apply for loans of up to \$100,000 online at bdc.ca. Our online financing platform continues to be an important part of how we serve Canadian entrepreneurs for speed and convenience.

Helping businesses to scale up

As a country, we need to get more businesses to a size where they can compete effectively on the national and international stages. That's why BDC is focused on helping businesses achieve this scale. We took a number of important steps in this regard.

- > We have committed **\$1.8 billion in growth capital** over five years to accelerate our support for asset-light high-growth companies.

- > We ramped up our **Growth Equity** solution. This helps entrepreneurs expand and keep control of their companies. It positions BDC as a management friendly partner, investing in established companies that are looking to become industry leaders while reducing financial risk.
- > With the baby-boom generation of entrepreneurs heading to retirement, we have committed \$900 million to **financing business transitions** over five years through our Growth & Transition Capital team. Close to \$200 million has been deployed to date.

Enabling success with top-notch business advice

Access to good business advice is a key growth enabler for companies of all sizes. In fiscal 2019, Advisory Services delivered in excess of 1,600 mandates to help companies grow faster, become more efficient and innovate.

We have a special focus on high-growth businesses because of their outsized impact on our economy and more complex advice needs. Our **Growth Driver Program** provides strategic advice, coaching and leadership development to these businesses. With more than 120 companies in the program, we have refocused its scope to allow for more impactful interventions for each client.

Supporting innovation

With more than \$3 billion under management, our investment arm BDC Capital serves as a strategic partner to the country's most innovative firms.

- > We are Canada's largest and most active venture capital investor. We invest directly and indirectly in close to 800 companies.
- > We evolved our strategy for more focus on later stage investments. Our co-investment team has stepped up the pace of its investing activity to participate in larger and later rounds.

- > To create additional funds at scale, we decided to open up two of our captive funds—IT and Health—to outside investors. This led to the creation of Framework Venture Partners and Amplitude Ventures.
- > We also took steps towards creating a new direct fund focused on innovation in the industrial sector. The fund will seek to revitalize sectors such as manufacturing, mining, and oil and gas by investing in tech companies that can increase their competitiveness.

Meeting the needs of underserved entrepreneurs

We are committed to making sure all entrepreneurs have the same opportunities to succeed. That's why we focus on certain underserved groups of business owners, including women, new immigrants and Indigenous people.

Women business owners face unique challenges getting the financing and advice they need to grow their businesses. We have developed a multi-year strategy aimed specifically at them.

- > We lent nearly \$570 million to majority women-owned businesses in fiscal 2019, putting us ahead of target in meeting our **ambitious goal of lending \$1.4 billion to women-led businesses** over three years to fiscal 2021.
- > Our **\$200 million Women in Technology Venture Fund** invested in 25 companies and is off to a good start.
- > Close to **900 women** from across Canada attended our **14 WE Talk Business Bootcamps** hosted by BDC that connected women entrepreneurs with the resources they need to grow their businesses.

Newcomers to Canada are another tremendous source of entrepreneurial dynamism, but they face challenges in starting and growing businesses. We have responded by creating a dedicated business unit—the **Newcomer Entrepreneur Success Team (NEST)**. NEST members, who speak eight languages, offer new immigrants customized financing options, specialized coaching services and other support programs.

We also worked hard to address the unique challenges faced by Indigenous businesses through our **Indigenous Banking Unit**. We now have more than 700 Indigenous entrepreneurs as clients.

Financially strong to do more for entrepreneurs

BDC is a self-financing Crown corporation and we must remain profitable to be able to do more for entrepreneurs. We had a strong year, earning consolidated net income of nearly \$890 million, as all business lines achieved better results than planned.

Our strong financial results will allow a dividend payment of \$128.4 million to the Government of Canada, our sole shareholder. The remainder will be reinvested to enable us to improve our support for entrepreneurs.

A great place to work

Our success depends on attracting, motivating and retaining engaged, talented employees. We are constantly looking for ways to ensure BDC offers an exceptional work experience.

I would like to thank our 2,300 employees for an outstanding year serving entrepreneurs. Your work is what makes BDC such a great partner for entrepreneurs in every part of the country.

Be where our entrepreneurs need us to be

As we look forward to **BDC's 75th anniversary this Fall**, I am constantly impressed by the ingenuity, resilience and ambition of Canadian entrepreneurs. Thank you for partnering with us and for everything you do for our communities and our country.

As for us, at BDC, our promise to you is that we will be wherever you need us to be.

Sincerely,



Michael Denham
President and CEO



Management's Discussion and Analysis

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1 Economic Environment

Global economic turbulence led to moderating growth in Canada

The global economy grew 3.6% in 2018, the same as a year earlier. However, there was much greater divergence in economic performance among regions.

In both Europe and China, domestic demand weakened in the second half of the year as trade tensions weighed on growth. The U.S. economy, by contrast, was propelled higher by tax cuts for business and higher income households. As the U.S. economy diverged from the rest of the world, its currency strengthened, creating tighter global financial conditions and lower growth, especially in emerging markets.

In Canada, growth slowed to 1.8% in 2018, compared to 3.0% in 2017. The slowdown reflected a slump in oil prices, higher interest rates and trade tensions with the U.S. that undermined confidence. On the bright side, employment continued to be robust and a lower Canadian dollar stimulated exports.

After increasing in 2017, global trade contracted by 1.4% in 2018, hurt by tensions between the U.S. and other countries. The U.S. imposed tariffs on numerous imports, including steel and aluminum from Canada. The largest tariffs were levied on China, with US\$250 billion worth of Chinese exports affected, accounting for half of the country's exports to the U.S.

China's economy slowed to 6.6% in 2018, down from 6.8% in 2017. This slower pace was driven in part by China's ongoing transition to consumer-led economy from a long-time focus on exports and investments. Indeed, domestic consumption accounted for roughly 75% of GDP growth last year, up from 60% in 2015.

India continues to be resilient in the face of slowing global growth and is an outlier among many emerging markets. Its economy grew 7.3% in 2018, up from 6.6% in 2017. India's limited ties to the U.S. and Chinese economies and relatively closed financial system helped shield it from the fallout associated with global trade tensions.

In Europe trade conflicts are having a significant impact, especially in Germany, which has strong commercial linkages with both the U.S. and China. Growth in the euro area slowed to 1.8% in 2018, compared to 2.5% in 2017. The uncertainty generated by Brexit weighed on Britain, with the economy growing 1.4% in 2018, down from 1.8% in 2017.

In the U.S., the economy grew 2.9% in 2018, up from 2.2% in 2017, as tax cuts encouraged businesses to invest and consumers to spend. Employment continued to grow impressively, averaging 200,000 new jobs per month, and the unemployment rate ended the year at 3.8%. The strong labour market led to steadily rising average hourly wages.

In Canada, the Bank of Canada raised its overnight lending rate three times, for a total increase of 0.75%, in response to what appeared to be steady economic growth in the first half of the year. However, the bank paused its cycle of increase when oil prices slumped and global trade tensions weakened confidence.

Canadian business investment grew by 2.1% for the year. However, after a strong first quarter, it contracted each quarter for the rest of 2018.

Oil prices were volatile in the second half of the year, with the North American benchmark, West Texas Intermediate, dropping from US\$75 a barrel to US\$45, and Western Canadian Select (WCS) dropping from US\$55 a barrel to US\$13 between October and November. The price of WCS rebounded to US\$30 in December, an increase that can be partly attributed to production cuts in Alberta.

Despite uncertainty over pipeline construction, production in the oil-and-gas extraction industry strengthened in 2018, growing 7%. The natural gas sector got a boost from LNG Canada's announcement of plans to build a liquefied natural gas (LNG) terminal in Kitimat, British Columbia, in conjunction with a pipeline that TransCanada is building.

Overall, the goods producing sector slowed to 2.4% from 4.6% in 2017, while services industries continued their steady growth of 2.1%.

The Canadian dollar fell against the U.S. dollar in response to the Federal Reserve's rate hikes. On the positive side, the lower Canadian dollar helped exports to grow 3.3% in real terms, with nearly all categories contributing. Energy products, metals and minerals, pharmaceuticals, electronics, heavy motor vehicles and aircraft equipment rose the most.

The Canadian labour market continued to improve in 2018, with the economy creating 350,000 new jobs (split fairly evenly between full-time and part-time). The unemployment rate ended the year at 5.6%.

The solid employment situation helped households deal with higher interest payments. However, Canadians remain highly indebted and the interest rate hikes left them with less disposable income to spend on goods and services. As a result, retail sales increased by a weak 0.7% in 2018, compared to 5.7% in 2017. Sales of interest-sensitive goods, such as vehicles and home furnishings, slowed the most.

In summary, rising interest rates in Canada and the U.S. slowed consumption and global trade tensions lowered confidence, resulting in moderate economic growth in Canada in 2018. Despite slowing global growth, rising exports helped Canada's economy. Both goods and services industries grew, although at a slower pace than last year.




② Performance Indicators Results

BDC's performance indicators and targets are based on the business environment in which Canadian SMEs operate, as well as our previous and expected performance. The performance indicators support our aspiration to make entrepreneurs the most competitive in the world. They are aligned with shareholder priorities and BDC's client impact strategic objectives below.

<p>→ Increasing access to capital and advice for entrepreneurs</p>	<p>BDC's role is to meet the needs of underserved entrepreneurs with a combination of advice, investment and financial support that complements the private sector. BDC pays particular attention to certain demographics, such as women and immigrant entrepreneurs, and to certain business types, such as small businesses and those with limited tangible collateral. To reach as many underserved SMEs as possible, we partner with public and private sector organizations. We also focus on offering ease, speed and convenience to efficiently increase our reach and better meet evolving client expectations.</p>
<p>→ Accelerating growth, innovation and productivity for targeted entrepreneurs</p>	<p>Canadian SMEs continue to face challenges hindering their competitiveness: difficulty scaling up, lagging productivity, low spending on R&D and limited market diversification. With a special focus on firms that have the potential to affect the Canadian economy the most, such as high-growth and high-impact firms, BDC provides capital and advice that enable SMEs to succeed, especially by accelerating their growth, innovation, productivity and globalization.</p>
<p>→ Improving the Canadian entrepreneurial ecosystem</p>	<p>BDC shares our extensive expertise to ensure a better understanding of success factors so that the Canadian entrepreneurial ecosystem can be healthier and even more vibrant. BDC is in a unique position to establish relationships and collaborate with partners and influencers, so that, together, we can enable the success of Canadian SMEs. BDC is especially active in strengthening the innovation ecosystem to make Canadian venture capital a financially attractive asset class for private sector investors.</p>

Short term—1 year

Objective	Performance indicator
 Provide financing to small businesses	# of acceptances ⁽¹⁾
 Provide asset-light financing	\$ of acceptances, GTC and Financing unsecured loans (\$ in millions)
 Support Indigenous entrepreneurs	# of clients identified as Indigenous
 Make it easy for clients to do business with BDC	% of very satisfied clients ⁽²⁾
 Work in partnership to extend reach and provide support to entrepreneurs 	# of transactions done in partnerships ⁽³⁾
	# of indirect clients ⁽⁴⁾
 Provide advisory services to accelerate growth, innovation and productivity	# of mandates for Advisory Services ⁽⁵⁾
 Support Canada's most promising firms and enable them to contribute fully to the economy	% of \$ of acceptances for high-growth firms, GTC

 Increasing access to capital and advice for entrepreneurs	 Accelerating growth, innovation and productivity for targeted entrepreneurs	 Improving the Canadian entrepreneurial ecosystem
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Short term—1 year (continued)



	Target Fiscal 2019	Result Fiscal 2019	Percentage achieved	Comment
	12,300	13,798	112%	BDC strives to help SMEs meet their financing needs. Even in the context of a highly liquid market and higher interest rates, we exceeded our target for number of acceptances due to strong demand for smaller loans.
	1,400	1,402	100%	BDC supports businesses that require financing even though they have little or no collateral. This target was met despite a challenging context of a highly liquid market.
	650	714	110%	BDC aims to address the unique challenges faced by Indigenous businesses through our Indigenous Banking Unit. This team exceeded expectations thanks to its dedication and tools such as the revamped Indigenous Entrepreneur Loan (IEL).
	66	67	102%	BDC is continuing our efforts to understand entrepreneurs and their needs, and create a positive client experience. Our positive result in an increasingly liquid market environment shows we are succeeding in our efforts to deliver a great client experience that is aligned with our brand promise.
	1,750	1,822	104%	BDC works with partners to maximize entrepreneurs' success. This result is mainly driven by an increase in referrals from Canadian chartered banks, as well as from other government institutions, such as EDC, NRC and the regional development agencies.
	10,500	11,861	113%	BDC supports alternative lenders to improve access to financing for underserved markets. Both indirect financing disbursements and the outstanding portfolio were above corporate plan targets.
	1,655	1,633	99%	Advisory Services provides entrepreneurs with much-needed advice, knowledge and skill-building opportunities, delivered by a network of external consultants. The number of mandates is slightly below objective mainly because the team focused on offering larger solutions to increase the impact of our services.
	38%	22%	58%	With high liquidity in the market, financial institutions and other players are attracting highly profitable and growing firms which led BDC, as a complementary lender, to miss its target.

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

- (1) Financing and Growth & Transition Capital loans with a commitment size of ≤ \$750,000.
- (2) "Very satisfied" clients gave a score of 9 or 10 out of 10 for their overall satisfaction with BDC services. Source: BDC Client Voice Survey (excludes venture capital).
- (3) Including Financing transactions of more than \$100,000 and Advisory Services transactions done in collaboration with chartered banks, other lenders, government agencies and Crown corporations, Community Futures and other economic development agencies, and under specific agreements (including Futurpreneur and Women's Enterprise Organizations of Canada, despite these being below \$100,000).
- (4) Excluding clients served by ATB Financial.
- (5) Includes mandates for high-impact firms, international expansion and consulting.

Medium term—3 years

Objective	Performance indicator
 Support women-led tech firms	\$ authorized to women in tech (VC) (\$ in millions, cumulative to fiscal 2020)
 Support women entrepreneurs	\$ authorized, GTC and Financing, for majority women-owned businesses (\$ in millions, cumulative fiscal 2019 to fiscal 2021)
 Support Canada's most promising firms and enable them to contribute fully to the economy	Total revenue of high-impact firms that participate in the Growth Driver Program (\$ in millions) ⁽⁶⁾
 Help entrepreneurs take advantage of global opportunities	# of clients who export

 Increasing access to capital and advice for entrepreneurs	 Accelerating growth, innovation and productivity for targeted entrepreneurs	 Improving the Canadian entrepreneurial ecosystem
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Medium term—3 years (continued)

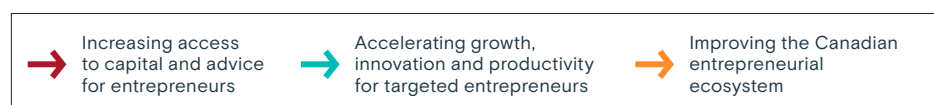
	Target (T) ending	Result Fiscal 2019	Comment
	T2020 50	24.7	BDC has committed to providing a cumulative \$50 million over three years (up to fiscal 2020) to support women in tech firms, as part of its \$200 million Women in Technology Venture Fund. We are tracking towards this target.
	T2021 1,400	564	BDC has committed to providing a cumulative \$1.4 billion over three years (to fiscal 2021) in financing to majority women-owned businesses. This result represents 110% of our objective for this year, and 23% year-over-year growth nationally. In addition, we have seen growth in each of our regions. Our success is due to the work of a network of sponsors and champions across Canada, effective marketing efforts and collaboration with partners.
	T2021 8,800	5,200	With our Growth Driver Program, Advisory Services is already helping over 100 high-impact firms achieve sustainable growth by providing expert advice to their CEO and management team. However, the program has evolved in scope and breadth since inception. The targeted number of clients is lower than originally planned to allow for more impactful interventions per client. In consequence, we might not reach the three-year target.
	T2020 6,350	6,992	BDC continues to provide financing strategies to our clients and an ever-growing global community to help them build their presence abroad. Working with partners allows BDC to have a more significant impact on entrepreneurs wanting to expand internationally.

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

(6) Includes investments since beginning of the program (fiscal 2017).

Long term—5 years

Objective	Performance indicator
 Fulfill our complementary role by serving underserved entrepreneurs	% of Financing portfolio that is sub-investment grade ⁽⁷⁾
 Provide financing and advisory services that enable clients to succeed 	% of clients who reported a positive impact on their business following the services they received from BDC ⁽⁸⁾
 Help restore the venture capital asset class to profitability to attract private sector investors 	BDC direct VC funds total value to paid-in capital (TVPI) ⁽⁹⁾
 Accelerate entrepreneurs' competitiveness	Results of BDC's impact study ⁽¹⁰⁾
 Increase the amount of capital available to Canada's promising cleantech firms	\$ accepted, Cleantech Practice (\$ in millions, cumulative fiscal 2018 to fiscal 2022) ⁽¹¹⁾



Long term—5 years (continued)

	Target Fiscal 2022	Result Fiscal 2019	Comment
	Maintain a minimum of 93	90	The economy is healthy, this has a positive impact on companies' financial health.
	Maintain a minimum of 89	91	BDC continues to ensure clients receive tailored support that meets their needs. The strong result demonstrates the impact our people, products and tailored solutions have on Canadian entrepreneurs.
	1.25 or higher	1.63	BDC aims to reach profitability in our venture capital operations to attract investors to this asset class. VC exceeded the TVPI target as part of a record year.
	BDC has a positive impact on revenue growth	N/A	This impact study is performed every five years. Results will be available for F2020 Annual Report.
	600	153⁽¹²⁾	BDC has committed to providing a cumulative \$600 million over five years (beginning fiscal 2018 and ending fiscal 2022) in financing to cleantech firms. Since the launch of the initiative, we are tracking towards target.

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

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

(8) Source: BDC Client Voice Survey (excludes venture capital).

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

(10) Source: Statistics Canada, BDC: *Measuring BDC's impact on its clients*.

(11) Includes Financing, Growth & Transition Capital and VC.

(12) This result is cumulative, including results for both F2018 and F2019.

3 Analysis of Financial Results

Lines of business

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

Effective in 2019, BDC adopted IFRS 9, *Financial Instruments* and elected not to restate comparative information. Refer to Note 4—*Adoption of IFRS 9* for more details on the financial impact of applying the new impairment model.

Activities

BDC is the only bank devoted exclusively to Canadian entrepreneurs. Our purpose is to help Canadian entrepreneurs succeed. We do that by providing financing, capital and advice.

Financing helps improve the competitiveness of small- and medium-sized enterprises (SMEs) by providing term lending, and collaborating with other financial institutions to increase credit availability in the market through co-lending, syndicated loans and indirect financing. During the year, Financing clients accepted a total of \$7.2 billion in loans, an increase of 5.9% compared to \$6.8 billion in fiscal 2018.

Starting January 2018, BDC committed \$1.4 billion in financing over three years for majority women-owned businesses. BDC has since authorized \$564.1 million in loans, which is on target with its objective, demonstrating BDC's support of women entrepreneurs.

Advisory Services encompasses BDC's non-financial offerings and gives access to knowledge, guidance and expertise to Canadian entrepreneurs so they can unlock growth, strengthen operations, and become better business managers. Advisory Services achieved strong results in fiscal 2019, with net contracts signed amounting to \$26.8 million, up 6.9% from \$25.1 million recorded last year.

GTC provides cash flow, mezzanine, quasi-equity and equity solutions for SME growth and transition projects. GTC clients accepted \$388.8 million in financing this year, compared to \$426.9 million last year. Following an exceptional level of activity last year, GTC reported a lower volume of acceptances during fiscal 2019 as a result of high levels of market liquidity.

BDC Capital has invested over \$180 million in change-of-ownership transactions since December 2017 and is on track with its pledge to invest \$900 million in such deals over five years.

BDC continued to strengthen the innovation ecosystem with its venture capital activities. These helped Canadian innovators launch and grow technology-focused businesses and commercialize innovations, while also serving to build the skills of VC fund managers. In fiscal 2019, Venture Capital authorized investments totalling \$247.2 million, compared to \$178.3 million last year.

In fiscal 2019, BDC's \$200 million Women in Technology Venture Fund invested directly into 19 women-led technology firms.

On behalf of the government of Canada, BDC continued to manage Venture Capital Incentive Programs, which includes \$390 million for the VCAP and \$450 million for the VCCI. VCCI investment will be made available to increase the availability of late-stage venture capital in Canada and to leverage private capital up to a total pool of \$1.6 billion. Authorizations for VCCI reached \$298.2 million in fiscal 2019.

Cleantech Practice will deliver \$600 million in additional capital entrusted to BDC by the federal government to help build globally competitive Canadian cleantech firms and a long-term, commercially sustainable cleantech industry that can attract significant private capital investment.

In fiscal 2019, Cleantech Practice clients accepted a total of \$73.6 million in subordinate financing investments and Cleantech Practice authorized equity investments totalling \$39.4 million (\$40.0 million and nil, respectively, in fiscal 2018).

Financial results overview

For the analysis of financial results, please also refer to Note 25—*Segmented information* to the Consolidated Financial Statements.

Consolidated net income

BDC reported consolidated net income of \$885.6 million this year. Net income attributable to BDC's shareholder amounted to \$878.5 million, while net income of \$7.1 million was attributable to non-controlling interests. Non-controlling interests relate to Growth & Transition Capital and Venture Capital operations.

Net income from Financing was \$621.3 million, an increase of \$7.6 million from last year. The increase in profitability was mainly due to higher net interest income as a result of strong portfolio growth offset by higher provisions for credit losses due to IFRS 9 implementation.

Advisory Services reported a net loss of \$49.8 million, slightly lower than the net loss of \$51.0 million recorded last year. Revenue for fiscal 2019 was strong and reached \$25.1 million compared to \$19.8 million last year, which reflects BDC's continuous enhancements to its non-financial services to increase its reach and impact on more entrepreneurs. Most of what Advisory Services does is considered an investment in fostering the competitiveness of Canadian businesses.

Net income from Growth & Transition Capital was \$73.4 million, \$2.2 million higher than last year. The favourable results were mainly due to higher realized gain on the sale of equity investments.

Venture Capital delivered solid performance, surpassing last year's strong results with net income of \$194.2 million for fiscal 2019, compared to \$159.3 million recorded last year. Fiscal 2019 net income was favorably impacted by net change in unrealized fair value appreciation and net foreign exchange gains.

VCIP recorded net income of \$53.1 million, compared to net income of \$25.7 million last year, mainly due to a higher net change in unrealized appreciation of investments.

Net loss from Cleantech Practice was \$6.6 million, compared to net loss of \$0.6 million last year. In fiscal 2019, BDC continued to develop this new business line and allocated additional resources to accomplish its objective. In addition, results were negatively impacted by higher net change in unrealized depreciation of investments.

Net income attributable to non-controlling interests was \$7.1 million in fiscal 2019 (\$4.5 million in net income from Growth & Transition Capital and \$2.6 million from Venture Capital), compared to net income of \$43.3 million in fiscal 2018 (\$12.4 million in net income from Growth & Transition Capital and \$30.9 million in net income from Venture Capital). The decrease in net income attributable to non-controlling interests was mainly due to the partial sale of one investee in fiscal 2018.

Consolidated net income—by business segment

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

	2019	2018	2017	2016	2015
Financing	621.3	613.7	450.7	444.9	457.4
Advisory Services	(49.8)	(51.0)	(45.8)	(31.6)	(24.2)
Growth & Transition Capital	73.4	71.2	44.6	53.7	38.5
Venture Capital	194.2	159.3	5.2	67.4	23.3
Venture Capital Initiative Programs	53.1	25.7	10.1	3.3	(4.3)
Cleantech Practice	(6.6)	(0.6)	–	–	–
Net income	885.6	818.3	464.8	537.7	490.7
Net income attributable to:					
BDC's shareholder	878.5	775.0	466.0	535.4	490.5
Non-controlling interests	7.1	43.3	(1.2)	2.3	0.2
Net income	885.6	818.3	464.8	537.7	490.7

Return on common equity

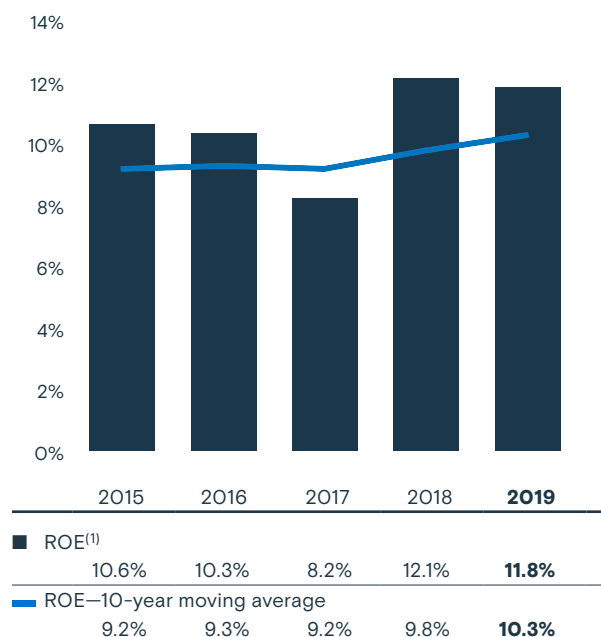
BDC's return on common equity (ROE) was 11.8% in fiscal 2019, higher than the 10-year moving average of 10.3%, as a result of BDC's solid performance in fiscal 2019.

Consolidated comprehensive income

Consolidated comprehensive income for fiscal 2019 was \$817.7 million, compared to \$777.8 million last year. Fiscal 2019 consolidated comprehensive income comprised of \$885.6 million in consolidated net income and \$67.9 million in other comprehensive loss. The other comprehensive loss for the year was mostly due to the remeasurement loss on the net defined benefit asset or liability of \$76.2 million, compared to a loss of \$36.8 million in fiscal 2018. For the most part, this loss was caused by lower discount rates used to value the net defined benefit liability, offset by higher returns on pension plan assets. For further details, refer to Note 19—*Net defined benefit asset or liability* to the Consolidated Financial Statements.

Return on common equity (ROE)

as at March 31



(1) ROE is calculated based on equity attributable to BDC's shareholder. (See the Glossary on page 136 for a detailed definition).

Consolidated comprehensive income

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

	2019	2018	2017	2016	2015
Net income	885.6	818.3	464.8	537.7	490.7
Other comprehensive income (loss)					
Items that may be reclassified subsequently to net income					
Net change in unrealized gains (losses) on fair value through other comprehensive income assets	7.0	(3.6)	(1.7)	(3.0)	1.7
Net change in unrealized gains (losses) on cash flow hedges	1.3	(0.1)	0.6	(1.1)	0.7
Total items that may be reclassified subsequently to net income	8.3	(3.7)	(1.1)	(4.1)	2.4
Items that will not be reclassified to net income					
Remeasurements of net defined benefit asset or liability	(76.2)	(36.8)	72.8	(39.5)	(32.7)
Other comprehensive income (loss)	(67.9)	(40.5)	71.7	(43.6)	(30.3)
Total comprehensive income	817.7	777.8	536.5	494.1	460.4
Total comprehensive income attributable to:					
BDC's shareholder	810.6	734.5	537.7	491.8	460.2
Non-controlling interests	7.1	43.3	(1.2)	2.3	0.2
Total comprehensive income	817.7	777.8	536.5	494.1	460.4

Performance against objectives

The consolidated net income of \$885.6 million was significantly better than the corporate plan objective of \$554 million. All business lines achieved better results than planned.

Financing's net income was \$43.3 million higher than planned, primarily due to a lower-than-anticipated provision for credit losses.

Advisory Services' net loss of \$49.8 million was \$5.2 million lower than expected, mainly as a result of higher revenue and lower-than-anticipated operating and administrative expenses.

Growth & Transition Capital's net income of \$73.4 million also contributed to the positive difference and was \$15.4 million higher than the corporate plan objective, mainly due to higher-than-anticipated net revenue on investments.

Net income for both Venture Capital and Venture Capital Incentive Programs was significantly higher than expected (favourable differences of \$189.2 million and \$67.1 million, respectively), mainly due to a higher-than-anticipated net change in unrealized appreciation of investments.

Cleantech Practice's net loss of \$6.6 million was lower than anticipated by \$11.4 million mainly due to a lower net change in unrealized depreciation of investments.

Financing

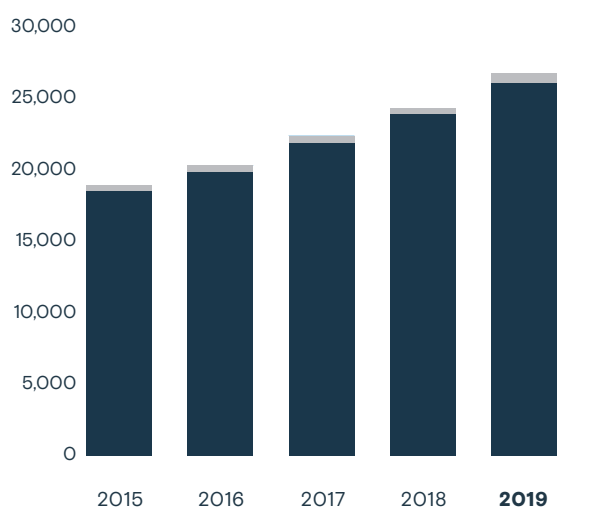
Financing provides term lending to SMEs at each stage of their business journey and helps them improve their competitiveness. BDC also works closely with other financial institutions to increase credit availability in the market through co-lending and syndicated loans and indirect financing.

BDC continued to increase the ease, speed and convenience for entrepreneurs to access its services and has invested resources in past years to enhance its delivery model, online platform, and automation of processes.

Financing portfolio

The financing portfolio comprises mainly loans and asset-backed securities (ABS), and a marginal subordinate financing investment totalling \$26.6 billion.

Financing portfolio
as at March 31 (\$ in millions)



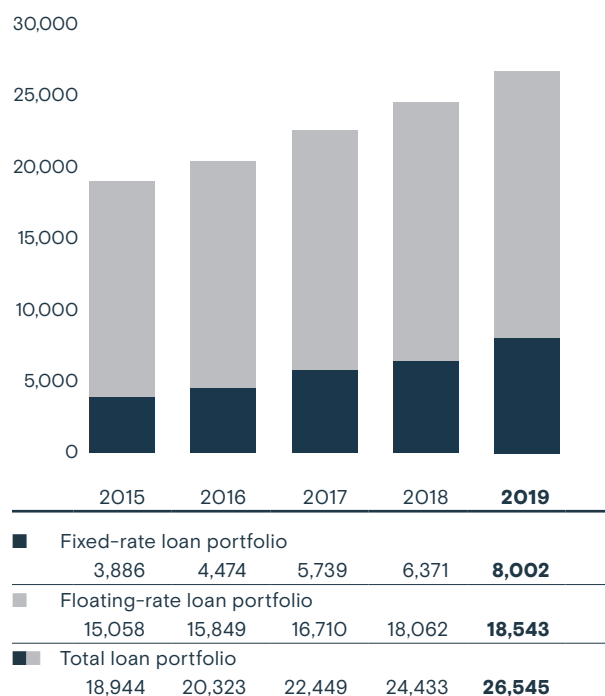
	2015	2016	2017	2018	2019
■ Loan portfolio ⁽¹⁾	18,414	19,718	21,752	23,728	25,916
■ Asset-backed securities portfolio	408	510	518	473	700
■ Subordinate financing portfolio	-	-	-	10	12
■ Total Financing portfolio	18,822	20,228	22,270	24,211	26,628

(1) Net of allowance for credit losses.

Financing's loan portfolio, before allowance for credit losses, increased by 8.6% from \$24.4 billion a year ago to \$26.5 billion as at March 31, 2019, mainly due to a strong level of activities in the loan portfolio. The closing loan portfolio comprised \$25.6 billion in performing loans and \$0.9 billion in impaired loans. As at March 31, 2019, 69.9% of the loan portfolio was composed of floating-rate loans, slightly lower than the fiscal 2018 level of 73.9%.

Financing loan portfolio

as at March 31 (\$ in millions)



Net interest, fee and other income

Net interest income reflects interest income less interest expense on borrowings. Net interest income reached \$1,229.4 million in fiscal 2019, compared to \$1,131.0 million in fiscal 2018. The increase of \$98.4 million was mainly the result of growth in the portfolio. The net interest income margin, i.e. the ratio of net interest income over the average loan portfolio, slightly decreased from 4.70% in fiscal 2018 to 4.68% in fiscal 2019. The decrease in fee and other income was mainly due to an unexpected one-time payment received in fiscal 2018.

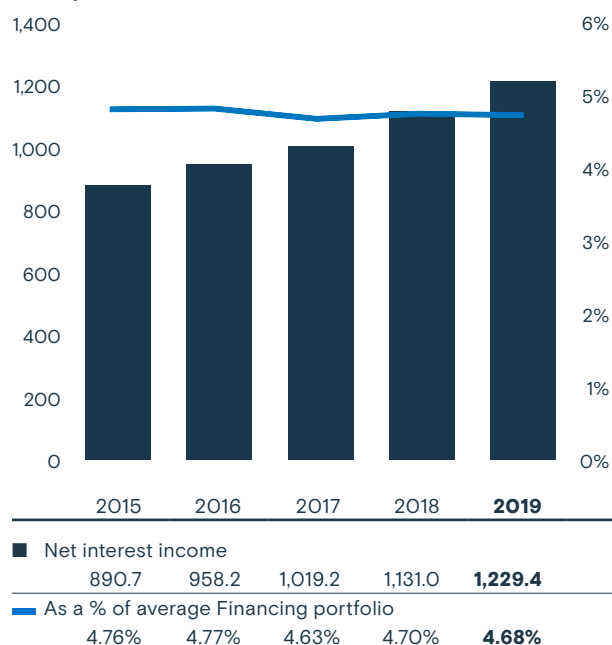
Financing results

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

	2019	2018
Net interest income	1,229.4	1,131.0
Fee and other income	21.1	56.8
Provision for credit losses	(179.9)	(153.5)
Net change in unrealized appreciation (depreciation) of investments	1.4	0.4
Net gains (losses) on other financial instruments	1.1	1.1
Net foreign exchange gains (losses)	(6.1)	(2.9)
Income before operating and administrative expenses	1,067.0	1,032.9
Operating and administrative expenses	445.7	419.2
Net income from Financing	621.3	613.7

Financing net interest income

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



Financing results

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

	2019	2018
Net interest income	4.7%	4.7%
Fee and other income	0.1%	0.2%
Provision for credit losses	(0.7%)	(0.6%)
Net change in unrealized appreciation (depreciation) of investments	0.0%	0.0%
Net gains (losses) on other financial instruments	0.0%	0.0%
Net foreign exchange gains (losses)	0.0%	0.0%
Income before operating and administrative expenses	4.1%	4.3%
Operating and administrative expenses	1.7%	1.7%
Net income from Financing	2.4%	2.6%

Provision for credit losses

The provision for credit losses is the amount charged to income to maintain the total allowance for credit losses at a level considered adequate to absorb the credit losses expected in the portfolio at the statement of financial position date. Effective April 1, 2018, BDC adopted IFRS 9, *Financial Instruments* which introduced an expected credit loss (ECL) model that differs significantly from the previous IAS 39 incurred loss model. As required by IFRS 9, the allowance for ECL is calculated based on a three-stage model incorporating forward-looking information and is established at the individual level. This allowance comprises the allowance on performing loans and the allowance on impaired loans. Refer to Note 3—*Significant accounting policy* to the Consolidated Financial Statements for a complete description of our expected credit loss impairment model.

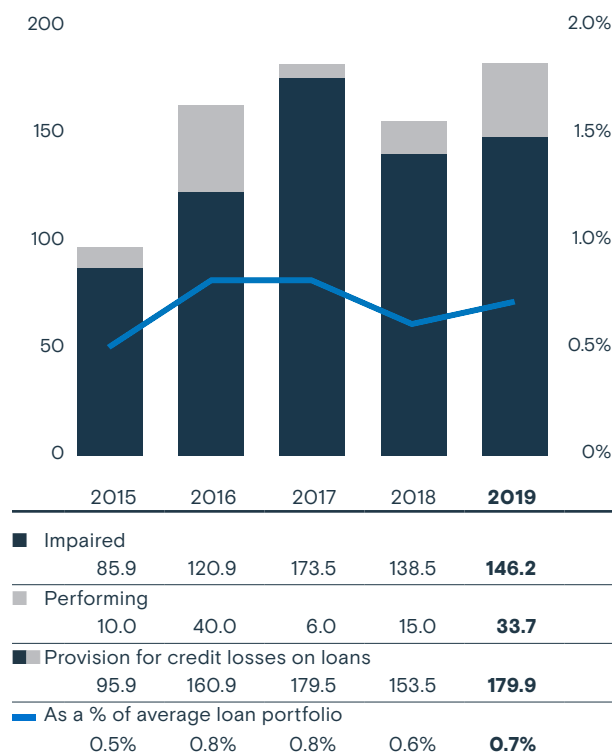
In fiscal 2019, Financing recorded a provision for credit losses of \$179.9 million compared to \$153.5 million in fiscal 2018, the increase of \$26.4 million is mainly attributable to the implementation of the new IFRS 9 impairment model. The provision for credit losses on performing loans was \$33.7 million, compared to \$15.0 million in fiscal 2018 and the provision for credit losses on impaired loans was \$146.2 million compared to \$138.5 million in fiscal 2018.

A significant factor influencing the allowance on impaired loans is the amount of loans that were downgraded from performing to impaired status. When financial conditions deteriorate, more loans default. When they default, we classify them as impaired and record an amount equal to the net expected credit losses in the allowance for credit losses on impaired loans. The rate of these downgrades increased to 2.5% of the opening performing loan portfolio in fiscal 2019, compared to 2.4% for fiscal 2018, whereas the provision for credit losses on impaired loans remained stable at 0.6% of the average portfolio.

BDC closely manages \$882.8 million in impaired loans, which increased by \$112.2 million in fiscal 2019. Impaired loans represented 3.3% of the total portfolio as at March 31, 2019, the same level as at March 31, 2018.

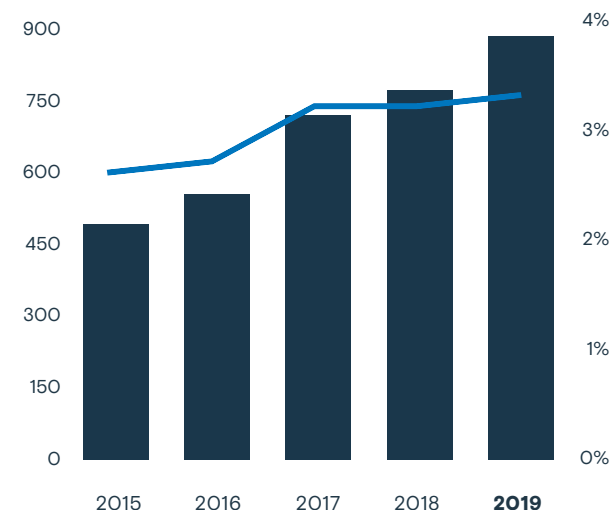
Provision for credit losses on loans

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



Impaired portfolio

as at March 31 (\$ in millions)



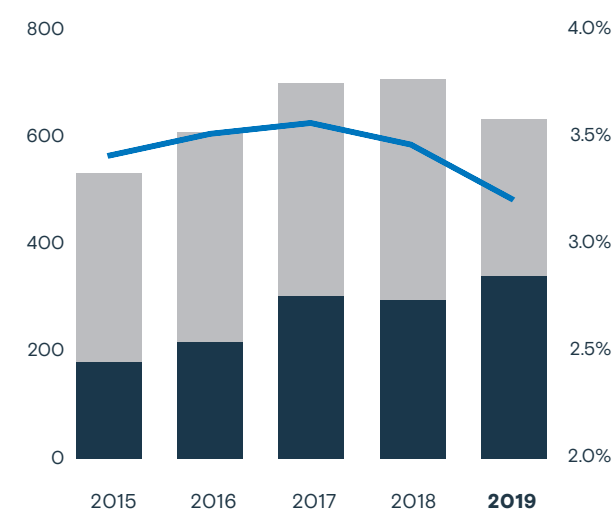
■ Impaired portfolio	490.6	554.7	718.3	770.6	882.8
— Impaired portfolio as a % of total loan portfolio	2.6%	2.7%	3.2%	3.2%	3.3%

The total allowance for credit losses decreased to \$629.2 million as at March 31, 2019, compared to \$704.6 million in fiscal 2018. BDC recorded a \$132.2 million decrease in the allowance impacting opening retained earnings at transition to IFRS 9. The total allowance represented 2.4% of the total loans outstanding, lower than the 2.9% recorded last year as a result of a \$120.5 million decrease in the allowance for the performing loan portfolio, partly offset by a \$45.1 million increase of the allowance for the credit impaired portfolio.

To read more about credit risk management, please refer to Note 23—*Risk management* to the Consolidated Financial Statements.

Allowance for credit losses

as at March 31 (\$ in millions)



■ Impaired	179.9	215.7	300.9	293.6	338.7
■ Performing	350.0	390.0	396.0	411.0	290.5
■ Total allowance	529.9	605.7	696.9	704.6	629.2
— Total allowance as a % of total loan portfolio	2.8%	3.0%	3.1%	2.9%	2.4%

Net gains or losses on other financial instruments

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

During fiscal 2019, Financing recorded net gains on other financial instruments of \$1.1 million, which included net realized gains of \$2.1 million and net unrealized losses of \$1.0 million. In comparison, net gains on other financial instruments of \$1.1 million were recorded in fiscal 2018, comprising net realized gains of \$0.9 million and net unrealized gains of \$0.2 million.

Operating and administrative expenses

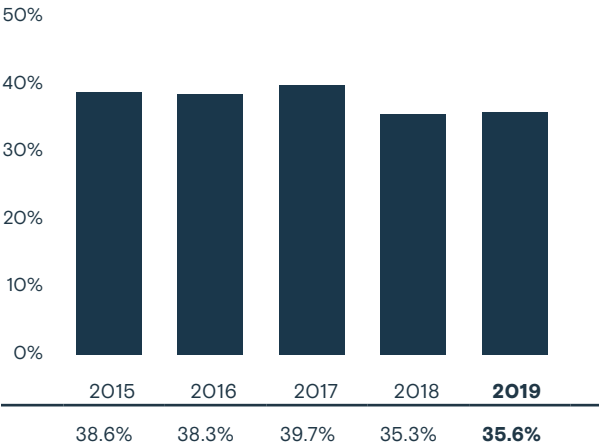
Operating and administrative expenses were \$445.7 million in fiscal 2019, compared to the \$419.2 million recorded last year.

As a percentage of the average portfolio, operating and administrative expenses were 1.7%, same as the 1.7% recorded in fiscal 2018, reflecting efficiency gains from investments in processes and technology. BDC also continued to leverage its online presence through the virtual business centre and is investing in enhanced mobile capabilities to make it simpler and faster for clients to secure financing.

Operational efficiency

Over the years, BDC has made a concerted effort to achieve efficiencies while fulfilling its role as a development bank and implementing government priorities. BDC carefully manages operating expenses by identifying and gaining efficiencies and by improving its efficiency ratio, that is, the expenses incurred to earn each dollar of revenue (the lower the ratio, the better). As a result, the Financing efficiency ratio improved from 38.6% in fiscal 2015 to 35.6% in fiscal 2019, slightly above the target of 35.7%.

Financing efficiency ratio⁽¹⁾
for the years ended March 31



(1) A lower ratio indicates improved efficiency. For the definition of efficiency ratio, refer to the Glossary on page 136.

Performance against objectives

Financing’s net income was \$43.3 million higher than planned, mainly due to a lower-than-anticipated provision for credit losses, partly offset by a lower-than-anticipated net interest, fee and other income.

Net interest, fee and other income was \$11.5 million lower than the \$1,262 million anticipated, mainly due to the lower average portfolio. Total operating and administrative expenses of \$445.7 million were \$5.3 million lower than the corporate plan objective. As expected, BDC continued to control costs and maximize efficiency.

Financing’s closing loan and ABS portfolios at the end of fiscal 2019, net of allowance for credit losses, stood at \$26.6 billion, which is \$0.3 billion lower than the corporate plan objective. Total acceptances for the year were \$0.3 billion higher than the corporate plan objective of \$7.2 billion.

Advisory Services

Advisory Services offers entrepreneurs high-quality advisory solutions, a program targeting high-impact firms, and online educational content. BDC invests in helping Canadian businesses become more competitive by taking on a significant portion of the costs associated with these activities to ensure that firms can reap maximum benefits.

In recent years, Advisory Services has refined its approach to better cater to the unique needs of both smaller and larger SMEs while fine-tuning the way it delivers projects.

Advisory Services continues to enhance the Growth Driver Program to serve companies that have a significant impact on the economy. The program, delivered by highly experienced executive advisors supported by a team of experts and analysts, focuses on helping entrepreneurs and management teams develop and execute growth plans to ensure high-impact firms reach their full potential. There are now more than 120 clients enrolled in this program.

Net loss from Advisory Services

The offerings of Advisory Services are an ongoing investment in entrepreneurs. Advisory Services' net contracts signed increased from \$25.1 million last year to \$26.8 million in fiscal 2019, driven mainly by the Medium and Large business solutions, which recorded a 17% increase compared to last year. Advisory Services recorded a net loss of \$49.8 million in fiscal 2019, compared to a net loss of \$51.0 million in fiscal 2018. Advisory Services' revenues of \$25.1 million in fiscal 2019 were higher than the \$19.8 million recorded last year. Operating and administrative expenses of \$57.8 million were slightly higher than in fiscal 2018.

Advisory Services results

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

	2019	2018
Revenue	25.1	19.8
Delivery expenses ⁽¹⁾	17.1	14.0
Gross operating margin	8.0	5.8
Operating and administrative expenses	57.8	56.8
Net loss from Advisory Services	(49.8)	(51.0)

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

Performance against objectives

For fiscal 2019, the net loss of \$49.8 million from Advisory Services was lower than the corporate plan estimate of \$55.0 million. Revenues were strong at \$25.1 million, higher than the corporate plan objective of \$23.0 million, whereas operating and administrative expenses were \$3.1 million lower than anticipated.

Growth & Transition Capital

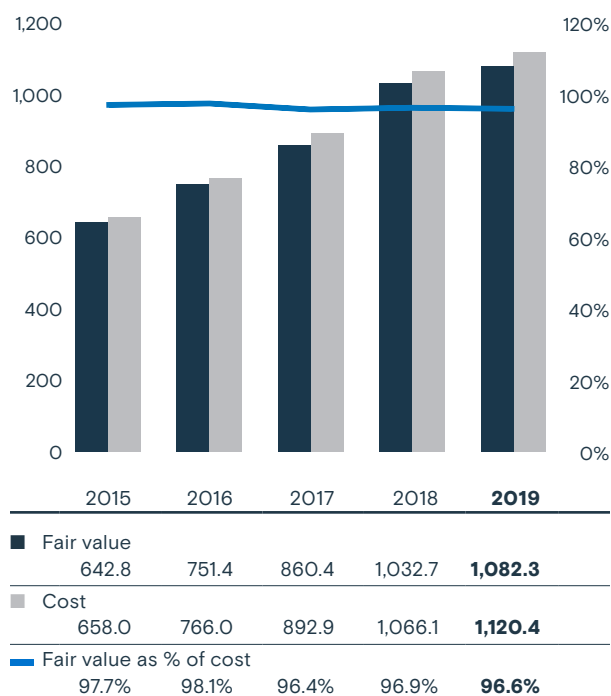
Growth & Transition Capital caters to growing businesses, especially high-growth firms, with strong management but, often, with limited tangible assets to offer as collateral. BDC offers higher risk solutions (cash flow, mezzanine, quasi-equity) to allow entrepreneurs to execute their growth and succession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

Growth & Transition Capital investment portfolio

Growth & Transition Capital's investment portfolio remains stable at \$1.1 billion. The average loan size decreased to \$1.8 million in fiscal 2019 compared to \$2.2 million in fiscal 2018. Following a high level of activity last year, Growth & Transition Capital reported slower growth this fiscal due to higher levels of market liquidity.

The fair value of the portfolio as a percentage of cost stood at 96.6%, slightly lower than last year.

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



Net income from Growth & Transition Capital

Growth & Transition Capital recorded net income of \$73.4 million for the year, \$2.2 million higher than in fiscal 2018. Net income included \$4.5 million attributable to non-controlling interests in fiscal 2019, compared to \$12.4 million last year. The favourable difference compared to last year was mainly driven by higher net revenue on investments.

Growth & Transition Capital results

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

	2019	2018
Net revenue on investments	119.9	111.1
Net change in unrealized appreciation (depreciation) of investments	(4.7)	(0.9)
Net foreign exchange gains (losses)	0.5	(0.1)
Income before operating and administrative expenses	115.7	110.1
Operating and administrative expenses	42.3	38.9
Net income from Growth & Transition Capital	73.4	71.2
Net income attributable to:		
BDC's shareholder	68.9	58.8
Non-controlling interests	4.5	12.4
Net income from Growth & Transition Capital	73.4	71.2

Growth & Transition Capital results

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

	2019	2018
Net revenue on investments	11.1 %	11.4 %
Net change in unrealized appreciation (depreciation) of investments	(0.4)%	(0.1)%
Net foreign exchange gains (losses)	0.0 %	(0.0)%
Income before operating and administrative expenses	10.7 %	11.3 %
Operating and administrative expenses	3.9 %	4.0 %
Net income from Growth & Transition Capital	6.8 %	7.3 %
Net income attributable to:		
BDC's shareholder	6.4 %	6.0 %
Non-controlling interests	0.4 %	1.3 %
Net income from Growth & Transition Capital	6.8 %	7.3 %

Net revenue on investments, comprising net interest income, net realized gains on investments, as well as fee and other income, reached \$119.9 million, \$8.8 million higher than in fiscal 2018. The increase was mainly due to higher net realized gains on investments as a result of the complete sale of investees. Refer to Note 25—*Segmented information* for more details.

In fiscal 2019, Growth & Transition Capital recorded a net change in unrealized depreciation of investments of \$4.7 million compared to \$0.9 million last year. The higher unrealized depreciation of investments this fiscal is explained by a less favourable impact from the sale of investees compared to last year as shown in the table below under reversal of net fair value depreciation due to realized income.

Net change in unrealized appreciation (depreciation) of investments

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

	2019	2018
Net fair value appreciation (depreciation)	(9.0)	(9.3)
Reversal of net fair value depreciation (appreciation) due to realized income and write-offs	4.3	8.4
Net change in unrealized appreciation (depreciation) of investments	(4.7)	(0.9)

Operating and administrative expenses increased by \$3.4 million from last year. The increase was mainly due to higher staff levels required to fully support growth. However, as a percentage of the average portfolio, operating and administrative expenses decreased to 3.9% compared to 4.0% in fiscal 2018.

Performance against objectives

Net income from Growth & Transition Capital of \$73.4 million in fiscal 2019 was higher than the corporate plan objective of \$58.0 million. This difference was mainly due to higher-than-anticipated net revenue on investments from net realized gains on sale of equity investments.

Acceptances reached \$388.8 million for the year, lower than the corporate plan objective of \$410 million.

Venture Capital

Venture Capital actively supports the development of a healthy and vibrant venture capital (VC) ecosystem to foster innovation in Canada. BDC plays an important role by helping Canadian innovators launch and grow technology-focused businesses and commercialize their innovations, and by building the skills of VC fund managers. It backs over 800 companies through direct investments in businesses and indirect investments in 76 VC funds. VC's efforts to make Canadian venture capital a financially viable and attractive asset class for private sector investors have helped propel the market forward.

Direct investment

Since 2012, BDC has been managing five direct investment funds in the areas of Information Technology (IT), Healthcare, Industrial, Clean and Energy Technology (ICE), Women in Technology (WIT); and Co-Investments. These operate on the same principles as private sector funds, and have supported the development of 141 innovative companies while generating positive returns.

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

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

Indirect investment

The goal of BDC's indirect investing strategy is to help create a thriving ecosystem of high-performing fund managers, while generating positive results. To achieve this mandate, BDC supports a mix of emerging and established managers, and focuses

on helping top-performing funds evolve into globally competitive mature funds over time. BDC indirectly supports 705 tech firms through investments in 76 funds. The performance of BDC's own portfolio of fund investments—a good proxy for Canadian industry performance—has improved significantly in recent years, closing the gap with the more mature U.S. VC industry.

In the fourth quarter of fiscal 2019, BDC Capital announced the co-creation of two private funds, namely Framework Venture Partners and Amplitude Ventures, which were launched by former members of BDC IT Venture and Healthcare funds. BDC Capital has a \$50 million commitment to the newly created Framework Venture Partners fund whose goal is to raise \$150 million to address the critical shortage of later stage financing in Canada.

Venture Capital portfolio

The fair value of the portfolio increased from \$1,263.1 million in fiscal 2018 to \$1,566.2 million this year. The portfolio is composed of \$906.8 million in direct investments and \$659.4 million in investments in 76 funds.

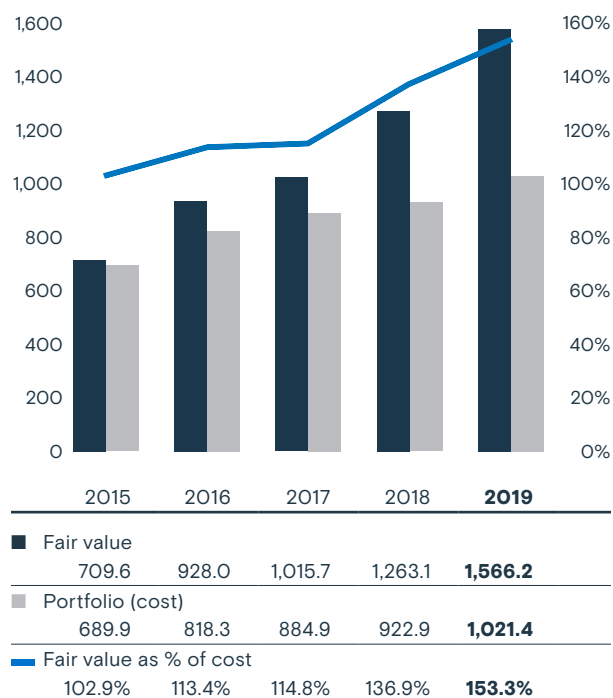
The fair value of the total portfolio as a percentage of cost was 153.3% as at March 31, 2019, higher than the 136.9% last year. The increase was mainly due to a \$179.3 million positive net change in unrealized appreciation of investments, a portion of which was recorded following the announcement of the upcoming sale of one of our investees. Fiscal 2019 fair value as a percentage of cost was 150.3% for the direct investments portfolio and 157.7% for the funds.

The total Venture Capital commitment to investees, which represents the portfolio outstanding at cost plus undisbursed commitments, amounted to \$1,416.9 million as at March 31, 2019. This represents \$616.5 million committed to direct investments and \$800.4 million to private sector investment funds, for an increase of 11.2% compared to last year.

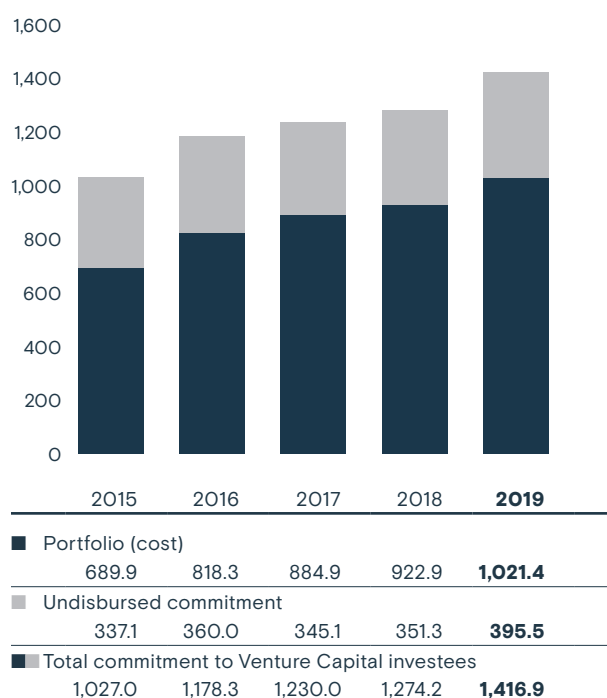
As planned, our commitments to private sector investment funds are greater than those to direct investments. We expect to invest the undisbursed portion of our commitments over the next few years.

Venture Capital portfolio—total investments

as at March 31 (\$ in millions)


Total commitment to Venture Capital investees

as at March 31 (\$ in millions)


Net income from Venture Capital

Venture Capital recorded record net income of \$194.2 million, compared to \$159.3 million in net income last year, marking a fifth consecutive year with positive results. Fiscal 2019 net income was favourably affected by a significant fair value appreciation following the announcement of the upcoming sale of one of our investees.

Venture Capital results

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

	2019	2018
Net revenue (loss) on investments	24.4	(23.4)
Net change in unrealized appreciation (depreciation) of investments	179.3	223.9
Net foreign exchange gains (losses)	22.7	(13.9)
Income before operating and administrative expenses	226.4	186.6
Operating and administrative expenses	32.2	27.3
Net income from Venture Capital	194.2	159.3
Net income attributable to:		
BDC's shareholder	191.6	128.4
Non-controlling interests	2.6	30.9
Net income from Venture Capital	194.2	159.3

The net revenue on investments, which comprised net realized gain or loss on investments, write-offs and other income, was \$24.4 million, compared to a net loss of \$23.4 million recorded in fiscal 2018. The increase of \$47.8 million in net revenue is explained by lower write-offs compared to last year. Proceeds received from the divestiture of investments were again strong this year at \$124.9 million, compared to \$124.1 million in fiscal 2018.

BDC recorded a net change in unrealized appreciation of investments of \$179.3 million, compared to a net change in unrealized appreciation of investments of \$223.9 million last year.

Net change in unrealized appreciation (depreciation) of investments

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

	2019	2018
Net fair value appreciation (depreciation)	177.4	167.2
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	1.9	56.7
Net change in unrealized appreciation (depreciation) of investments	179.3	223.9

Direct investments recorded fair value appreciation of \$98.7 million and indirect investments recorded fair value appreciation of \$78.7 million in fiscal 2019 for a total net fair value appreciation of \$177.4 million.

Net unrealized foreign exchange gains of \$22.7 million on investments were due to foreign exchange fluctuations in the U.S. dollar. BDC uses foreign exchange contracts to hedge U.S. dollar proceeds, following the occurrence of a liquidity event under which a venture capital investment is monetized as cash.

Operating and administrative expenses were \$32.2 million, higher than the \$27.3 million recorded last year mainly due to the costs associated with the co-creation of two private funds from the previously Captive IT and Healthcare Funds.

Venture Capital's net income attributable to non-controlling interests was \$2.6 million for the year, \$28.3 million lower than last year. The decrease in non-controlling interests was due to higher fair value appreciation and realized gains recognized in Go Capital L.P. following the partial sale of one of our investees in fiscal 2018.

Performance against objectives

Venture Capital's net income of \$194.2 million was higher than the \$5 million net income anticipated in the corporate plan. This was largely due to higher-than-anticipated net fair value appreciation on investments and higher net foreign exchange gains on investments. Net income attributable to non-controlling interests of \$2.6 million was \$2.6 million higher than anticipated.

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

Venture Capital Incentive Programs

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

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

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

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

Through VCCI, the government committed \$450 million to three different "streams", each of which has a different focus. This capital is expected to leverage over \$1.1 billion in private sector capital and \$57.1 million from provincial governments, bringing the total venture capital raised under VCCI to \$1.6 billion.

Venture Capital Incentive Programs portfolio

As at March 31, 2019, the total portfolio stood at \$461.6 million, compared to \$400.5 million last year. The increase was mainly due to fair value appreciation of investments during fiscal 2019 and disbursements of \$7.6 million.

Net income from Venture Capital Incentive Programs

VCIP recorded net income of \$53.1 million, mostly as a result of a net change in unrealized appreciation of investments of \$55.4 million related to the increase in fair value of the underlying funds. This is the fourth year in a row that VCIP has shown positive results. Operating and administrative expenses were \$2.8 million, higher than last year, mainly due to additional start-up costs related to the new Venture Capital Catalyst Initiative.

Venture Capital Incentive Programs results

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

	2019	2018
Net revenue on investments	0.3	0.1
Net change in unrealized appreciation (depreciation) of investments	55.4	27.0
Net foreign exchange gains (losses)	0.2	(0.1)
Income before operating and administrative expenses	55.9	27.0
Operating and administrative expenses	2.8	1.3
Net income from Venture Capital Incentive Programs	53.1	25.7

Performance against objectives

Net income of \$53.1 million exceeded expectations by \$67.1 million, mostly due to a higher-than-anticipated net change in unrealized appreciation of investments.

Cleantech Practice

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

Cleantech Practice's portfolio at the end of fiscal 2019 comprised \$57.8 million in subordinate financing investments. The net loss was \$6.6 million, as BDC continued to scale up this new business line.

Cleantech Practice results

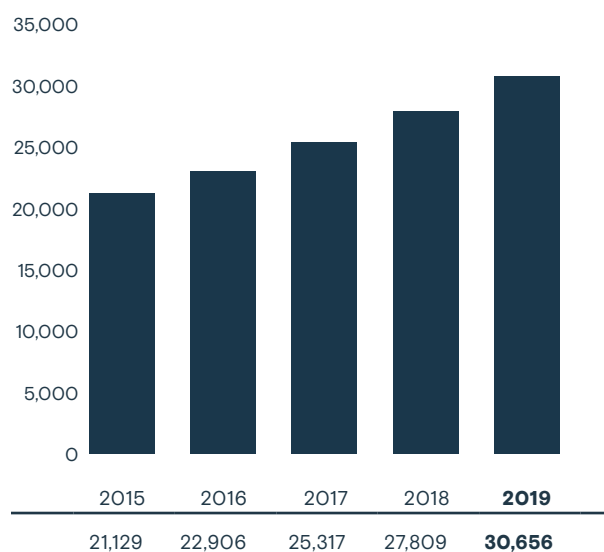
for the years ended March 31 (\$ in millions)

	2019	2018
Net revenue on investment	2.9	0.2
Net change in unrealized appreciation (depreciation) of investments	(5.8)	0.0
Net foreign exchange gains (losses)	(0.2)	0.0
Income before operating and administrative expenses	(3.1)	0.2
Operating and administrative expenses	3.5	0.8
Net loss from Cleantech Practice	(6.6)	(0.6)

Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows

Total assets of \$30.7 billion increased by \$2.9 billion from a year ago, largely due to a \$2.2 billion increase in the loans portfolio, combined with a \$227.6 million increase in asset-backed securities, a \$99.8 million increase in the subordinate financing investment portfolio, and a \$364.2 million increase in the VC and VCIP investment portfolios.

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



At \$25.9 billion (gross portfolio of \$26.5 billion net of a \$0.6 billion allowance for credit losses), the loan portfolio represented BDC's largest asset. The gross loan portfolio grew by 8.7% since March 31, 2018. BDC remains committed to actively supporting SMEs' needs and helping them improve competitiveness, while continuing to identify and address market gaps in financing across Canada.

BDC's investment portfolios, which include the subordinate financing, venture capital and asset-backed securities portfolios, stood at \$3.9 billion, compared to \$3.2 billion as at March 31, 2018. Subordinate financing investments reached \$1.2 billion as at March 31, 2019 compared to \$1.1 billion as at March 31, 2018. Venture capital investments increased from \$1.7 billion last year to \$2.0 billion as at March 31, 2019. The asset-backed securities portfolio stood at \$700.3 million, compared to \$472.7 million as at March 31, 2018.

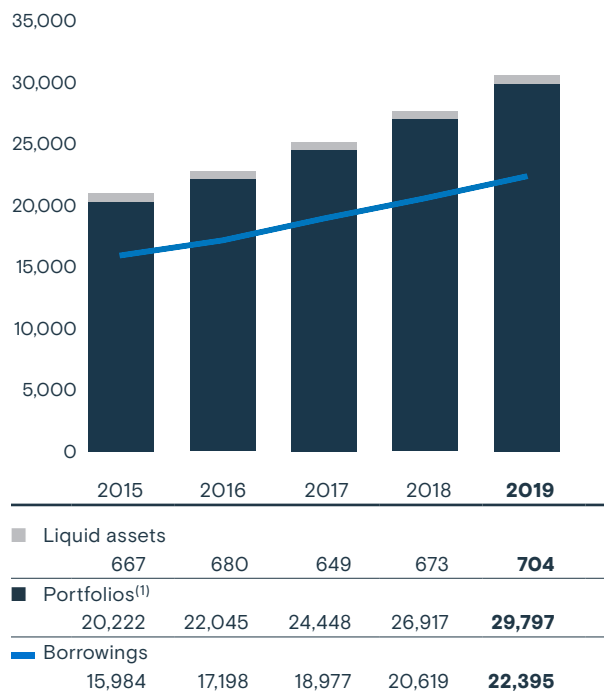
Derivative assets of \$10.3 million and derivative liabilities of \$5.9 million reflect the fair value of derivative financial instruments as at March 31, 2019. Net derivative fair value decreased by \$7.6 million compared to the value as at March 31, 2018, primarily due to maturities and redemptions, and a decrease in fair value. BDC acquires derivative financial instruments to manage exposures to interest, currency and other market risks. BDC does not hold derivatives for speculative or trading purposes.

As at March 31, 2019, BDC recorded a net defined benefit asset of \$20.5 million related to the registered pension plan, and a net defined benefit liability of \$282.2 million for the other plans, for a total net defined benefit liability of \$261.7 million. This represents an increase of \$101.8 million compared to the net defined benefit liability as at March 31, 2018, mostly as a result of remeasurement losses recorded during the year. For further information, refer to Note 19—*Net defined benefit asset or liability* to the Consolidated Financial Statements.

BDC holds cash and cash equivalents in accordance with its Treasury Risk Policy. The Bank's liquidities, which ensure funds are available to meet BDC's cash outflows, totalled \$704.0 million as at March 31, 2019, compared to \$672.9 million as at March 31, 2018.

Borrowings

as at March 31 (\$ in millions)



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

For the year ended March 31, 2019, cash flow used by investing activities amounted to \$429.8 million. Financing activities provided \$1.8 billion in cash flow, as long-term notes were issued for \$1.3 billion and short-term notes increased by a net amount of \$465.0 million. BDC also issued common shares totalling \$125.0 million for the Cleantech Practice. Operating activities used \$1,351.2 million in cash flows, mainly to support the growth of the loans portfolio. For further information, refer to the Consolidated Statement of Cash Flows on page 61.

As at March 31, 2019, BDC funded its portfolios and liquidities with borrowings of \$22.4 billion and total equity of \$7.8 billion. Borrowings comprised \$21.0 billion in short-term notes and \$1.4 billion in long-term notes.

Net defined benefit asset or liability

BDC's pension plan, supplemental plans and other employee future benefits are based on actuarial valuations and assumptions detailed in Note 19—*Net defined benefit asset or liability* to the Consolidated Financial Statements. Several factors, particularly the discount rate used to value future liabilities, influence the calculation of those obligations. For accounting measurement purposes, the discount rate used at each measurement date is based on market interest rates for long-term, high-quality debt instruments.

BDC's employer contributions to the registered pension plan totalled \$27.1 million in fiscal 2019, compared to \$34.3 million in fiscal 2018. BDC's best estimate of the contributions to be paid for fiscal 2020 is \$26.6 million.

Further to the directive received in December 2014 from the Governor in Council, BDC must ensure a 50:50 current service cost-sharing ratio between employees and employer. As at December 31, 2018, this ratio was 48:52. For more information regarding this directive, refer to Note 1—*Act of incorporation, objectives and operations of the Corporation* to the Consolidated Financial Statements.

BDC funds its registered pension plan in accordance with applicable federal pension legislation and actuarial standards of practice in Canada to ensure proper funding of employee benefits. As at December 31, 2018, the funded status of the registered pension plan was a going-concern ratio of 134.6% (with a surplus in excess of \$389.5 million) and a wind-up/solvency ratio of 103.7%. Mandatory employer current service contribution holiday occurs whenever the going-concern ratio is above 125% and the wind-up/ solvency ratio is above 105%. Consequently, BDC will continue to contribute to the pension fund in future years, as prescribed by the applicable federal pension legislation.

Capital management

Statutory limitations

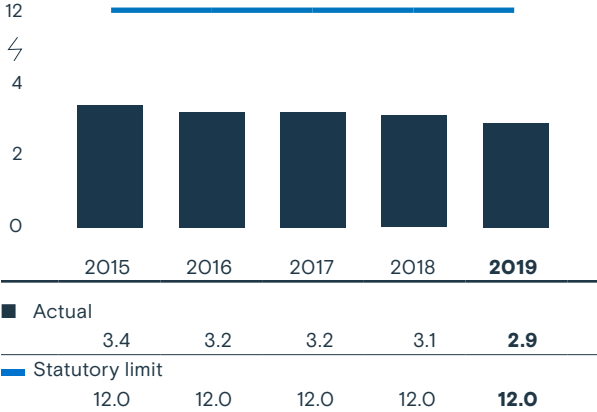
The BDC Act specifies that the aggregate of borrowings and contingent liabilities in the form of guarantees provided by BDC may not exceed 12 times its equity. This ratio excludes accumulated other comprehensive income. BDC’s debt-to-equity ratio as at March 31, 2019, was 2.9:1, compared to 3.1:1 as at March 31, 2018.

In addition, the paid-in capital, the contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments) must not at any time exceed \$4.5 billion. As at March 31, 2019, these amounts totalled \$2.6 billion, compared to \$2.5 billion as at March 31, 2018.

During the year, a \$125 million capital injection was received from the shareholder for the deployment of Cleantech Practice, compared to \$64.5 million in fiscal 2018 received for VCAP.

Debt-to-equity ratio

as at March 31



Capital adequacy

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

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

To assess its capital adequacy, BDC monitors its capital status regularly by comparing its available capital to its capital demand. A key measure for assessing capital status adequacy is BDC’s internal capital ratio.

Because Cleantech Practice was designed so that excess capital derived from its activities would not be available for other BDC activities, the Cleantech Practice’s capital status is reported and monitored separately. It is considered protected capital and Cleantech Practice is excluded from BDC’s internal capital ratio. Cleantech Practice’s capital status is defined as the difference between the initiative’s available capital and the economic capital required to support the risk profile of the Cleantech Practice portfolio.

Available capital

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

Capital demand

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

- > economic capital required, which quantifies the capital required to survive multiple concurrent risk events associated with BDC’s operations
- > stress testing reserve, which serves to absorb the volatility of an economic downturn while maintaining BDC’s financial strength
- > Venture Capital protection reserve, which is held to cover any needed follow-up investments

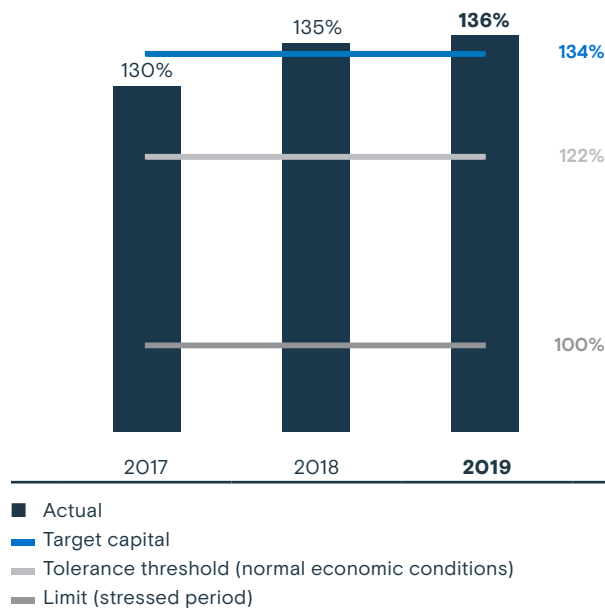
Operating range

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

Internal capital ratio

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

Internal capital ratio⁽¹⁾
as at March 31



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

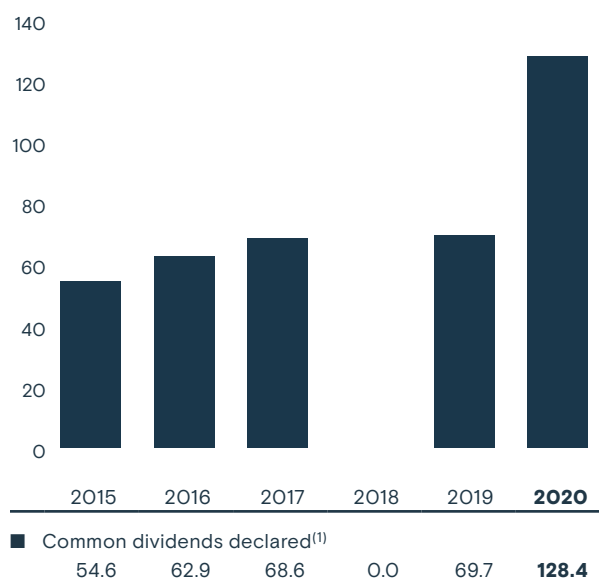
BDC's internal capital ratio, as at March 31, 2019, was 135.6%, above the target capital ratio of 134% and up from 134.7% as at March 31, 2018.

Dividends

BDC revised its Capital Management and Dividend Policy in fiscal 2017 to align with the dividend methodology included in the Capital and Dividend Policy Framework for Financial Crown Corporations. Excess capital, calculated as the difference between available capital and capital demand less operating range, is declared as dividends and distributed to the shareholder in the following fiscal year, subject to the discretion of the Board of Directors. The calculation excludes Cleantech Practice. As at March 31, 2019, BDC's internal capital ratio reached the 134% target, and excess capital amounted to 128.4 million. Consequently, a dividend will be declared for fiscal 2020, based on fiscal 2019 results.

Dividends

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



(1) Based on previous year's performance

Outlook for fiscal 2020

World economic growth has slowed down as global financial conditions tightened relative to last year, primarily driven by U.S. interest rate hikes, resulting in a depreciation of many currencies vis-à-vis the US dollar. While the U.S. Federal Reserve has paused its interest rate increases, the US dollar remains strong and this will continue to put pressure on companies and countries that borrow in dollars to finance trade and investment. The unresolved trade tensions between the United States and China have weakened business confidence also affecting trade and investment. The continuing uncertainty in the relationship between the world's two largest economies will weigh on global growth this year.

Canada's economy is expected to grow at a rate of 1.2% in calendar 2019, down from 1.8% in 2018. Higher interest rates have made housing more expensive and have reined in consumption as more disposable income goes to debt service. Lower oil prices are also responsible for slowing growth, especially for Alberta and Saskatchewan. Growth this year will vary significantly across the country with Newfoundland and Labrador and British Columbia, outperforming the rest. Provinces in the middle of the country, namely Manitoba, Ontario and Quebec, should see growth above the national average, while Saskatchewan and Alberta and the Maritime provinces should grow close to 1%.

Many of the factors currently slowing Canada's growth are expected to diminish by the end of the year, with growth expected to rebound in 2020.

BDC will continue supporting entrepreneurs to be more competitive by investing in technology and human capital, improving Canada's growth prospects.

BDC's consolidated net income is forecast to total \$586 million in fiscal 2020. Following strong results in fiscal 2019 and 2018, net income in fiscal 2020 will decline, but remain in line with historic level.

BDC will continue to make concerted efforts to control operating and administrative expenses, while investing in technology and improving processes. It will deploy technologies that will offer more simplicity and greater access. In particular, BDC will enhance its digital channels and launch mobile applications, bringing more value and efficiency to its clients.

Financing

Financing will continue to assist small businesses, including those that have difficulty accessing financing due to their location, sector or demographic profile. To that end, BDC will continue to enhance the ease, speed and convenience with which entrepreneurs can access its services.

Acceptances in fiscal 2020 are expected to reach \$7.5 billion, a similar level compared to fiscal 2019. Financing's loan portfolio, before allowance for credit losses, is expected to grow by 8.1% to \$28.7 billion in fiscal 2020.

Financing's net income is projected to reach \$602 million in fiscal 2020. Provisions for credit losses on loans are expected to amount to \$237 million, representing 0.9% of the average outstanding loan portfolio, up from the 0.7% recorded in fiscal 2019. Financing's operating expenses as a percentage of the average portfolio outstanding are expected to remain at the same level of 1.7%.

Advisory Services

In light of recent business model improvements that better address client needs, Advisory Services expects revenues to increase from \$25.1 million in fiscal 2019 to \$28 million in fiscal 2020. The net loss will reduce to \$49 million forecasted for fiscal 2020. Management considers these activities as an investment in the competitiveness of Canadian entrepreneurs and SMEs.

Growth & Transition Capital

Growth & Transition Capital is playing an increasingly important role in supporting the growth plans of SMEs through flexible financing solutions and a diverse product offering.

Following a lower level of activity in fiscal 2019 compared to corporate plan, Growth & Transition Capital anticipates the volume of acceptances to increase to \$425 million in fiscal 2020, compared to \$388.8 million in fiscal 2019. The fair value of the portfolio is expected to reach \$1,225 million in fiscal 2020, higher than the \$1,082.3 million recorded in fiscal 2019. Operating expenses as a percentage of the average outstanding portfolio at cost are projected to remain at the same level as fiscal 2019 at 4.0%.

Growth & Transition Capital's net income is forecasted to reach \$52.0 million in fiscal 2020 compared to \$73.4 million in fiscal 2019 which was favourably impacted by net realized gains on sale of equity investments.

Venture Capital

In fiscal 2020, we estimate VC to authorize \$250 million in investments. The fair value of the venture capital portfolio is forecasted to reach \$1,534 million by March 31, 2020, representing 140% of its cost.

For fiscal 2020, Venture Capital forecasts net income of \$5.0 million. Operating and administrative expenses are projected at \$34.0 million, higher than in fiscal 2019. Proceeds from investments are forecasted at \$160.0 million and disbursements at \$235.0 million for fiscal 2020. VC is a risky asset class that is subject to the volatility of market conditions. This may result in significant variations from plan.

Venture Capital Incentive Programs (VCIP)

BDC will continue to manage VCIP, which comprises Venture Capital Action Plan (VCAP) and Venture Capital Catalyst Initiative (VCCI).

For fiscal 2020, BDC anticipates that \$5.0 million will be disbursed for VCAP and \$44 million for VCCI, for a total of \$379.9 million and \$44 million, respectively, since the inception of each respective program.

For fiscal 2020, VCIP forecasts net losses of \$15.0 million, mainly due to fair value depreciation. Authorizations are expected to reach \$75.0 million with disbursements of \$49.0 million.

Cleantech Practice

Cleantech Practice places a greater emphasis on higher-risk transactions while balancing the need to demonstrate commercial viability and portfolio sustainability. BDC projects deploying \$600 million in debt and equity transactions by fiscal 2022. To implement the program, BDC also expects capital injections totalling \$600 million by fiscal 2021.

Given the risky nature and long lifespan of cleantech transactions, a net loss of \$9.0 million is forecast in fiscal 2020. Cleantech Practice portfolio at fair value is expected to reach \$212.0 million in fiscal 2020. Due to the high-risk profile of the initiative, financial results are expected to be subject to significant volatility.

Risk Management

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

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

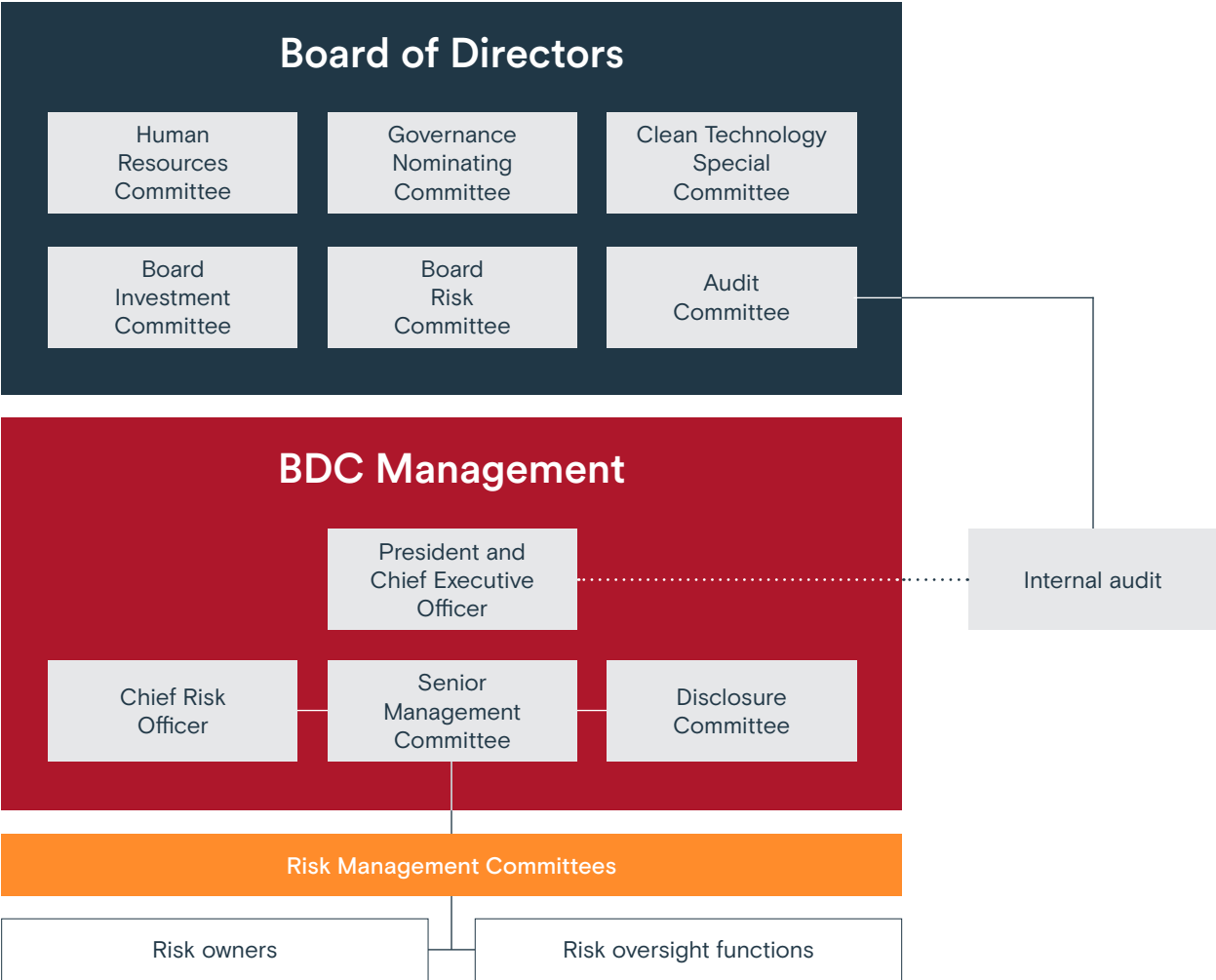
BDC's risk management framework (RMF) outlines the methodology used to manage the risks inherent in BDC's activities, while ensuring the outcomes of risk-taking activities are aligned with BDC's strategy and mandate. It also reinforces a risk management culture across the organization that ensures a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

BDC's risk management principles

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

- > **Risk accountability:** Risk management is everyone's responsibility, from members of the Board of Directors to employees carrying out oversight, business and corporate functions.
- > **Strategic balance:** BDC manages risk by balancing it with our strategic objectives, our mandate to support Canadian entrepreneurs and our ability to return capital to the shareholder in the form of dividends.
- > **Risk integration:** BDC integrates risk management into key business processes, activities and information technology management, including strategic, operational, business and budget planning, as well as lending, investing and advisory services activities.
- > **Risk challenge:** BDC fosters an open and transparent culture that promotes and encourages the challenging of decisions as part of risk management. The timely escalation of risk issues to the appropriate management level is fundamental to an effective dialogue about risk.
- > **Risk governance:** Policies codify comprehensive processes for identifying, analyzing, monitoring and mitigating risk within approved limits. Oversight functions, executive-level reporting and accountability to an independent Board of Directors and the shareholder ensure continuous and objective assessment of risk.

Risk governance framework



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

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

The Board of Directors

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

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

Although all committees consider risk in their deliberations, as appropriate, three committees—the Board Risk Committee, the Board Investment Committee and the Audit Committee—have specific responsibilities for managing risk. For full details on the board and its committees, please see the Corporate Governance section, starting on page 125.

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

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

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

BDC management: Risk committees and functions

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

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

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

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

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

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

BDC policy; and receives regular updates on the management of investments related to BDC's pension funds.

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

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

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

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

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

- > ensure that BDC applies appropriate risk management principles, policies and corporate directives to manage significant and emerging risks, according to risk thresholds
- > develop tools to measure, monitor and report on risks
- > provide timely and complete reports on these risks to the Bank's risk management committees

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

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

Key risks

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

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

OSFI and OAG reviews

As part of its ongoing efforts to monitor evolving financial risks to which the government may be exposed, and to ascertain whether those risks are adequately managed, the Office of the Superintendent of Financial Institutions (OSFI) reviewed BDC's risk management and governance practices in 2015. BDC has been addressing areas identified for improvement in order to optimize our risk management practices and control environment.

Our joint auditors, the Office of the Auditor General of Canada and Deloitte, completed a special examination of BDC in accordance with the Financial Administration Act. No significant deficiencies were identified in the Bank's systems and practices. There were recommendations following the examination related to the validation of financial and risk models and managing information technology risks. The recommendations are being actively addressed by the Bank.

Risk appetite framework and risk appetite statement

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

- > we understand, can manage and are aligned with our strategy
- > fulfill our mandate to support Canadian SMEs
- > are not expected to negatively impact our brand or the shareholder's reputation

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

Enterprise-wide risk management process

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

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

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

- > strategic
- > credit and investment
- > market and liquidity
- > operational
- > technology
- > regulatory and legal compliance
- > reputational

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



Risk identification and assessment

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

Risk measurement and analytics

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

Risk monitoring and reporting

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

Risk control

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

- > adequate and clear roles, responsibilities, processes, policies, corporate directives and procedures
- > corporate risk management functions and committees that provide oversight and monitoring
- > risk mitigation activities, such as hedging, insurance risk management, business continuity planning, information technology recovery planning, and anti-fraud and anti-money laundering programs
- > quality reviews and audits to ensure that BDC is using appropriate and sound risk management practices
- > enterprise-wide stress tests on significant risks and portfolios to determine the appropriate level of capital necessary to withstand a sustained economic downturn and continue to fulfill BDC mandate

Major risk categories

Strategic risk

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

Managing strategic risk

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

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

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

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

Please refer to Note 22—*Capital management* to the Consolidated Financial Statements for additional information on BDC's capital management and adequacy.

Financial risks

BDC has identified three major categories of financial risks: credit risk, market risk and liquidity risk. Note 23—*Risk management* to the Consolidated Financial Statements details BDC's financial risk management policies and measurements.

Credit risk

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

Managing credit risk

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

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

The table on page 45, based on the annual PD, matches our internal ratings to the ratings used by external ratings agencies.

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

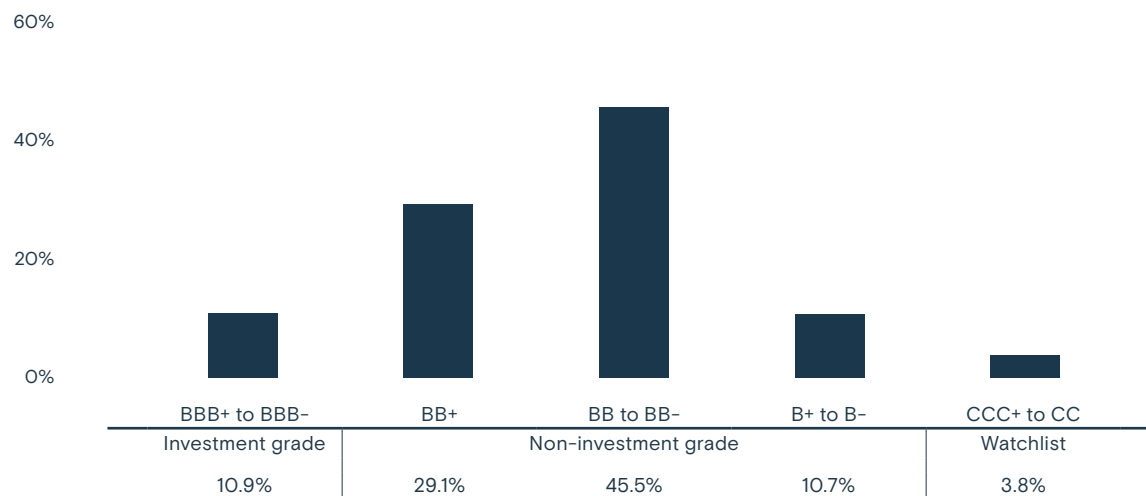
The most common method used to mitigate credit risk at the transaction level is to obtain quality collateral from borrowers. While collateral cannot replace a rigorous assessment of a borrower's ability to meet his or her obligations to us, it is an important complement. Collateral is not required in all cases; it depends on the type of loan granted.

BDC loans portfolio credit risk exposure

BDC rating	Annual PD	Grade equivalent	S&P equivalent	Moody's equivalent
0.5 - 1.0	0.1% - 0.3%	Investment grade	BBB+ to BBB-	Baa1 to Baa3
1.5 - 2.0	0.3% - 10.0%	Non-investment grade	BB+	Ba1
2.5 - 4.0			BB to BB-	Ba2 to Ba3
4.5 - 5.0			B+ to B-	B1 to B3
5.5	10.0% - 99.9%	Watchlist	CCC+ to CC	Caa1 to Ca
6.0 or higher	100%	Credit-impaired	D	C

BDC loans performing portfolio, classified by credit risk exposure

as at March 31, 2019 (as a percentage of gross performing financing portfolio)



Please refer to Note 10—Loans for further information about principal collateral pledged as security and our level of security coverage.

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

Market risk

This is the risk of financial loss that may arise from developments in the marketplace or from our inability to forecast poor economic conditions quickly enough

to mitigate losses in our portfolio. It represents the market value fluctuations of BDC's assets and liabilities arising from volatility in interest rates, equity markets and foreign currency levels. For BDC, market risk also arises from volatile and unpredictable market events affecting the value of venture capital and venture capital action plan investments.

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

Managing market risk

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

Liquidity risk

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

Managing liquidity risk

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

Operational risk

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

Managing Operational Risk

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

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

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

- > Human resources management: BDC's long-term success depends largely on our capacity to attract, retain and develop the right talent, and to create a healthy, professional and collaborative environment that encourages engaged employees to fully contribute to BDC's mission of helping Canadian entrepreneurs succeed. We achieve this through:
 - BDC's Code of Conduct, Ethics and Core Values
 - human capital strategies and plans, including effective hiring practices, organizational design and compensation
 - learning and development tools to foster engagement and prepare employees to achieve their full potential
- > Procurement and contracting processes: BDC follows sound principles and practices in the procurement and contracting of goods and services and the management of external suppliers.
- > Project management: The Enterprise Project Management Office (EPMO) provides project management leadership, expertise and experience to the entire organization. The EPMO also provides executive management with an overall strategic view of all BDC projects for prioritization and effective decision-making. This ensures projects are aligned with corporate objectives and the organizational capacity to deliver them.
- > Fraud management: BDC has an anti-fraud program that is consistent with current legislation and industry practices.
- > Model risk management: BDC manages and mitigates model risk throughout the lifecycle by reviewing, validating and approving new and existing models.

Technology risk

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

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

Managing technology risk

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

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

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

Legal and regulatory risk

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

Managing legal and regulatory risk

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

Reputational risk

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

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

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

Managing reputational risk

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

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

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

5 Accounting and Control Matters

Significant accounting policies

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

Future changes in accounting policies

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, which for BDC is April 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 lease assets and lease liabilities on the statement of financial position for all leases, unless the lease term is 12 months or less, or if the underlying asset has a low value. For lessors, the new standard does not provide any significant changes other than increased disclosure requirements. BDC has completed its assessment of IFRS 16 and has elected to apply the following transition reliefs and practical expedients:

- > Existing contracts at the date of transition will not be reassessed to determine whether they are, or contain, a lease under IFRS 16.
- > Follow the modified retrospective approach under which a lessee does not restate comparative information using the option where the right of use asset is equal to the lease liability, less an adjustment for prepaids and accrued payments.

BDC estimates this new standard to result in the recognition of right of use asset of approximately \$116 million and the recognition of lease liability of approximately \$123 million. BDC also expects a decrease in its premises and equipment expenses, offset by a corresponding increase in its interest and depreciation expenses resulting from the change in recognition, measurement and presentation requirements. However, no significant impact on net income is expected at this time.

Conceptual Framework

On March 29, 2018, the IASB issued the revised Conceptual Framework for Financial Reporting (Framework) replacing the previous version issued in 2010. The Framework is effective immediately for the IASB and IFRS Interpretations Committee, but has an effective date of January 1, 2020, which will be April 1, 2020 for BDC, with early adoption permitted. The Framework includes some new concepts, provides revised definitions and recognition criteria for assets and liabilities and clarifies some important concepts. BDC is currently assessing the impact of adopting the Framework.

Judgements, estimates and assumptions

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

Controls and procedures

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

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

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

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

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

As of March 31, 2019, certifying officers evaluated the design and effectiveness of internal control over financial reporting. Based on the results of the evaluation, they concluded that internal control over financial reporting is adequately designed and operates effectively to provide reasonable assurance about the reliability of financial reporting and of Consolidated Financial Statements prepared in accordance with IFRS.

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

As of March 31, 2019, certifying officers evaluated the design and effectiveness of disclosure controls and procedures. Based on the results of the evaluation, they concluded that disclosure controls and procedures are adequately designed and operate effectively to provide reasonable assurance that material information disclosed is recorded, processed, summarized and presented within the requested timeframe, and that it is communicated to management on a timely basis for decision-making purposes.





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Management's Responsibility for Financial Information

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

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

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

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



Michael Denham
President and Chief Executive Officer

Montreal, Canada
June 11, 2019



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



Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

Deloitte.

INDEPENDENT AUDITORS' REPORT

To the Minister of Small Business and Tourism

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Business Development Bank of Canada (the BDC), which comprise the consolidated statement of financial position as at 31 March 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the BDC as at 31 March 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Report on Compliance with Specified Authorities

Opinion

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

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

Responsibilities of Management for Compliance with Specified Authorities

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

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

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



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

Montréal, Canada
11 June 2019



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

Montréal, Canada
11 June 2019

Consolidated Statement of Financial Position

(in thousands of Canadian dollars)

	Note	March 31, 2019	March 31, 2018
ASSETS			
Cash and cash equivalents	8	703,980	672,870
Derivative assets	9	10,342	15,357
Loans			
Loans, gross carrying amount	10	26,545,464	24,432,831
Less: allowance for credit losses	10	(629,242)	(704,640)
Loans, net of allowance for credit losses		25,916,222	23,728,191
Investments			
Asset-backed securities	11	700,343	472,695
Subordinate financing investments	12	1,152,182	1,052,352
Venture capital investments	13	2,027,778	1,663,627
Total investments		3,880,303	3,188,674
Property and equipment	14	60,030	51,297
Intangible assets	15	38,935	38,206
Net defined benefit asset	19	20,483	95,303
Other assets	16	26,159	19,268
Total assets		30,656,454	27,809,166
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities	17	141,412	127,453
Derivative liabilities	9	5,940	3,387
Borrowings	18		
Short-term notes		20,951,914	20,481,148
Long-term notes		1,442,650	137,684
Total borrowings		22,394,564	20,618,832
Net defined benefit liability	19	282,206	255,225
Other liabilities	20	76,572	45,066
Total liabilities		22,900,694	21,049,963
Equity			
Share capital	21	2,602,900	2,477,900
Contributed surplus		27,778	27,778
Retained earnings		5,076,074	4,211,785
Accumulated other comprehensive income		7,373	(991)
Equity attributable to BDC's shareholder		7,714,125	6,716,472
Non-controlling interests		41,635	42,731
Total equity		7,755,760	6,759,203
Total liabilities and equity		30,656,454	27,809,166

Guarantees and contingent liabilities (Note 26)

Commitments (Notes 10, 11, 12, 13 and 27)

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



Michael Calyniuk
Director
Chairperson, Audit Committee



Michael Denham
Director
President and Chief Executive Officer

Consolidated Statement of Income

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

	2019	2018
Interest income	1,606,869	1,355,071
Interest expense	289,493	143,766
Net interest income	1,317,376	1,211,305
Net realized gains (losses) on investments	37,181	(19,637)
Revenue from Advisory Services	25,072	19,603
Fee and other income	43,314	84,612
Net revenue	1,422,943	1,295,883
Provision for credit losses	(179,915)	(153,539)
Net change in unrealized appreciation (depreciation) of investments	225,668	250,181
Net foreign exchange gains (losses)	17,080	(17,010)
Net gains (losses) on other financial instruments	1,175	1,180
Income before operating and administrative expenses	1,486,951	1,376,695
Salaries and benefits	410,203	392,157
Premises and equipment	44,008	40,309
Other expenses	147,138	125,966
Operating and administrative expenses	601,349	558,432
Net income	885,602	818,263
Net income attributable to:		
BDC's shareholder	878,482	775,004
Non-controlling interests	7,120	43,259
Net income	885,602	818,263

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

Note 24 provides additional information on the Consolidated Statement of Income, including interest income on financial assets measured at amortized cost and at fair value through other comprehensive income calculated using effective interest rate method.

Note 25 provides segmented information.

Consolidated Statement of Comprehensive Income

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

	2019	2018
Net income	885,602	818,263
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net income		
Net change in unrealized gains (losses) on fair value through other comprehensive income assets	7,027	(3,565)
Net unrealized gains (losses) on cash flow hedges	2,474	813
Reclassification to net income of losses (gains) on cash flow hedges	(1,137)	(949)
Net change in unrealized gains (losses) on cash flow hedges	1,337	(136)
Total items that may be reclassified subsequently to net income	8,364	(3,701)
Items that will not be reclassified to net income		
Remeasurements of net defined benefit asset or liability	(76,243)	(36,831)
Other comprehensive income (loss)	(67,879)	(40,532)
Total comprehensive income	817,723	777,731
Total comprehensive income attributable to:		
BDC's shareholder	810,603	734,472
Non-controlling interests	7,120	43,259
Total comprehensive income	817,723	777,731

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

Consolidated Statement of Changes in Equity

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

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

(1) Fair value through other comprehensive income assets

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

Consolidated Statement of Changes in Equity (continued)

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

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)			Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
				Available-for-sale assets	Cash flow hedges	Total			
Balance as at March 31, 2017	2,413,400	27,778	3,473,612	(711)	3,421	2,710	5,917,500	21,795	5,939,295
Total comprehensive income									
Net income			775,004				775,004	43,259	818,263
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				(3,565)		(3,565)	(3,565)		(3,565)
Net change in unrealized gains (losses) on cash flow hedges					(136)	(136)	(136)		(136)
Remeasurements of net defined benefit asset or liability			(36,831)				(36,831)		(36,831)
Other comprehensive income (loss)	-	-	(36,831)	(3,565)	(136)	(3,701)	(40,532)	-	(40,532)
Total comprehensive income	-	-	738,173	(3,565)	(136)	(3,701)	734,472	43,259	777,731
Dividends on common shares			-				-		-
Distributions to non-controlling interests								(23,158)	(23,158)
Capital injections from non-controlling interests								835	835
Issuance of common shares	64,500						64,500		64,500
Transactions with owner, recorded directly in equity	64,500	-	-	-	-	-	64,500	(22,323)	42,177
Balance as at March 31, 2018	2,477,900	27,778	4,211,785	(4,276)	3,285	(991)	6,716,472	42,731	6,759,203

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

Consolidated Statement of Cash Flows

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

	Note	2019	2018
Operating activities			
Net income		885,602	818,263
Adjustments to determine net cash flows			
Interest income		(1,606,869)	(1,355,071)
Interest expense		289,493	143,766
Net realized losses (gains) on investments		(37,181)	19,637
Provision for credit losses		179,915	153,539
Net change in unrealized depreciation (appreciation) of investments		(225,668)	(250,181)
Net unrealized foreign exchange losses (gains)		(33,790)	28,858
Net unrealized losses (gains) on other financial instruments		936	(231)
Defined benefits funding below (in excess of) amounts expensed		25,558	12,691
Depreciation of property and equipment, and amortization of intangible assets		19,106	16,072
Loss (gain) on derecognition of property and equipment		1,639	751
Other		(11,467)	(13,777)
Interest expense paid		(277,142)	(137,713)
Interest income received		1,561,747	1,302,618
Changes in operating assets and liabilities			
Net change in loans		(2,139,978)	(2,083,806)
Net change in accounts payable and accrued liabilities		13,959	8,418
Net change in other assets and other liabilities		2,928	(7,908)
Net cash flows provided (used) by operating activities		(1,351,212)	(1,344,074)
Investing activities			
Disbursements for asset-backed securities		(498,573)	(272,802)
Repayments and proceeds on sale of asset-backed securities		278,745	314,703
Disbursements for subordinate financing investments		(394,032)	(401,299)
Repayments of subordinate financing investments		293,387	218,482
Disbursements for venture capital investments		(206,186)	(259,792)
Proceeds on sale of venture capital investments		127,104	126,557
Acquisition of property and equipment		(19,498)	(29,767)
Acquisition of intangible assets		(10,709)	(14,308)
Net cash flows provided (used) by investing activities		(429,762)	(318,226)
Financing activities			
Net change in short-term notes	18	465,000	1,665,000
Issue of long-term notes	18	1,300,000	-
Repayment of long-term notes	18	-	(21,175)
Distributions to non-controlling interests		(11,125)	(23,158)
Capital injections from non-controlling interests		2,909	835
Issuance of common shares		125,000	64,500
Dividends paid on common shares		(69,700)	-
Net cash flows provided (used) by financing activities		1,812,084	1,686,002
Net increase (decrease) in cash and cash equivalents		31,110	23,702
Cash and cash equivalents at beginning of year		672,870	649,168
Cash and cash equivalents at end of year		703,980	672,870

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

Notes to the Consolidated Financial Statements

For the year ended March 31, 2019 (in thousands of Canadian dollars)

1.

Act of incorporation, objectives and operations of the Corporation

The Business Development Bank of Canada is a Crown corporation that was established by an Act of Parliament on December 20, 1974, as the Federal Business Development Bank and continued under its current name by an Act of Parliament that was enacted on July 13, 1995. The Business Development Bank of Canada is incorporated in Canada and wholly owned by the government of Canada. The Corporation's head office is located at 5 Place Ville Marie, Suite 100, Montreal, Quebec, Canada.

The objectives of the Business Development Bank of Canada and its subsidiaries (together, BDC) are to promote and assist in the establishment and development of business enterprises in Canada, with a focus on small and medium-sized enterprises, by providing a range of complementary lending, investment and advisory services. BDC offers Canadian companies services tailored to meet their current needs while earning an appropriate return on equity, which is used to further BDC's activities.

BDC does not receive appropriations from the government of Canada. To finance its objectives, BDC borrows funds from Her Majesty the Queen in Right of Canada acting through the Minister of Finance. Prior to April 21, 2008, BDC issued debt instruments, which were secured by the Government of Canada. The *Business Development Bank of Canada Act* (BDC Act) also allows the use of hybrid capital instruments to provide the capital required for its operations. Her Majesty the Queen in Right of Canada would not be liable for payment of amounts owing under such capital instruments, none of which were outstanding as at March 31, 2019, and March 31, 2018.

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

Pursuant to section 89 of the FAA, BDC received a directive in December 2014 from the Governor General in Council (P.C. 2014-1378) requesting that BDC review its current pension plan and ensure that it remains affordable, financially sustainable and consistent with the terms of the Public Service Pension Plan. These changes are intended to ensure that pension plans of Crown corporations provide a 50:50 current service cost-sharing ratio between employee and employer for pension contributions by December 31, 2017, as well as to raise the normal age of retirement to 65 years for employees hired on or after January 1, 2015. Consequently, to comply with the directive, BDC implemented modifications to its existing defined benefit pension plan effective January 1, 2015. Eligible employees hired before January 1, 2015, had a choice of three options: two options included some features of the old plan design and a third option offered a completely new benefit structure. Employees hired after December 31, 2014, are automatically enrolled in the third option. In addition, BDC gradually increased the employee's contribution level allowing to achieve a 50:50 current service cost sharing by December 31, 2017 and approved a funding policy with mechanisms to ensure BDC's cash contributions, for current service cost only, would not exceed members' required contributions, on a cumulative basis while complying with regulations. BDC completed the implementation of both elements of its strategy by December 31, 2017. As at December 31, 2018, BDC reached a 48:52 current service cost-sharing ratio between employee and employer. The slight deviation from the 50:50 objective is mostly explained by the greater than anticipated aging of its workforce, other demographic changes and economic assumption changes, such as a going-concern discount rate lower than forecasted in 2013. BDC will closely monitor the situation to ensure that it will not deviate significantly from the 50:50 objective in the upcoming years.

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

Pursuant to section 89 of the FAA, BDC received a directive in July 2015 from the Governor General in Council (P.C. 2015-1109) requiring that BDC align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations. Consequently, BDC implemented modifications to its Business Expenses Policy and Corporate Directive and confirms that it complies with this directive since then. The Business Expenses Policy can be found on BDC's website. Also, to comply with the updated Treasury Board Directive on Travel, Hospitality, Conference and Event Expenditures which took effect April 1, 2017, BDC discloses extensive information on travel and hospitality expenses for all senior level employees and board members on its website.

2.

Basis of preparation

Statement of compliance

BDC has prepared its Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS). These Consolidated Financial Statements were approved for issue by the Board of Directors on June 11, 2019.

Basis of presentation and measurement

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

- > financial assets and financial liabilities at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVOCI), available-for-sale financial assets (applicable before April 1, 2018), and derivative financial instruments have been measured at fair value; and
- > the net defined benefit asset or liability in respect of post-employment benefits has been recognized as the present value of the defined benefit obligation less the fair value of plan assets.

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

Basis of consolidation

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

The Consolidated Financial Statements of BDC comprise the financial statements of the parent entity and the consolidated financial statements of the subsidiaries referred to above as of March 31, 2019, and March 31, 2018. The financial statements of the subsidiaries are prepared using uniform accounting policies and valuation methods for similar transactions.

2. Basis of preparation (continued)

Subsidiaries

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

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

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

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

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

Go Capital L.P.

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

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

AlterInvest II Fund L.P.

BDC owns 50% of AlterInvest II Fund L.P. and acts as the general partner for this entity, thus having the ability to direct all relevant activities and power to affect the variable returns to which BDC is exposed. During fiscal 2014, having reached the end of their intended lives, AlterInvest Fund L.P. and AlterInvest Investment Fund Inc. began liquidating their investments. BDC owned 50% of AlterInvest Fund L.P. and AlterInvest Investment Fund Inc. 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. At the end of fiscal 2018, these entities were dissolved.

2. Basis of preparation (continued)

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 (loss) are attributed to BDC's shareholder and to non-controlling interests in accordance with their respective shareholdings, even if this results in the non-controlling interests having a deficit balance.

Associates

Associates are those entities in which BDC has significant influence, but not control, over the financial and operating policies. Subordinate financing and venture capital investments in associates that are held as part of BDC's investment portfolio by BDC Capital Inc. are carried in the Consolidated Statement of Financial Position at fair value. This treatment is permitted by International Accounting Standard (IAS) 28, *Investments in Associates*, which permits investments in an associate held by an entity that is a venture capital organization or other similar entity to elect to measure these investments at fair value through profit or loss in accordance with IFRS 9, *Financial Instruments* (IAS 39, *Financial instruments: Recognition and Measurement*, prior to April 1, 2018).

3.

Significant accounting policies

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all periods presented in these Consolidated Financial Statements, except for the policies related to the adoption of IFRS 9, *Financial Instruments* effective on April 1, 2018, and have been applied consistently by all entities consolidated by BDC.

Financial instruments

Recognition, derecognition and measurement of financial instruments

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

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

Financial instruments are recognized and derecognized using settlement date accounting.

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Classification of financial instruments – Policy applicable upon transition to IFRS 9 (April 1, 2018)

Financial assets

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

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

Business model assessment

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

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

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Classification of financial instruments – Policy applicable upon transition to IFRS 9 (April 1, 2018) (continued)

Financial assets (continued)

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

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

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

Financial liabilities

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

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

Subsequent measurement of financial instruments—Policy applicable upon transition to IFRS 9 (April 1, 2018)

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

Financial instruments classified at amortized cost

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

Financial instruments classified at fair value through profit or loss

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

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

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

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Subsequent measurement of financial instruments—Policy applicable upon transition to IFRS 9 (April 1, 2018) (continued)

Financial instruments classified at fair value through other comprehensive income

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

Financial liabilities designated at fair value through profit or loss

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

Classification of financial instruments—Policy applicable prior to adoption of IFRS 9 (April 1, 2018)

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 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, asset-backed securities, subordinate financing and venture capital investments classified or designated as at fair value through profit or loss are measured at fair value, with changes in unrealized gains or losses being recognized in the Consolidated Statement of Income as net change in unrealized appreciation or depreciation of investments, and gains and losses upon the sale, disposal or write-off of these investments being recognized in the Consolidated Statement of Income as net realized gains or losses on investments.

Unrealized and realized gains or losses related to derivatives and borrowings are reported in the Consolidated Statement of Income as net gains or losses on other financial instruments.

3. Significant accounting policies (continued)

Financial instruments (continued)

Classification of financial instruments—Policy applicable prior to adoption of IFRS 9 (April 1, 2018) (continued)

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

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 (loss) (AOCI), while changes related to the ineffective portion are recorded in the Consolidated Statement of Income as net gains or losses on other financial instruments. Amounts in AOCI are recycled to the Consolidated Statement of Income in the periods in which 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 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 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.

3. Significant accounting policies (continued)

Financial instruments (continued)

Impairment—Policy applicable upon transition to IFRS 9 (April 1, 2018)

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

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

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

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

- i. Stage 1—12-month ECL: The loss allowance is measured at an amount equal to 12-month expected credit losses if there is no significant increase in credit-risk since initial recognition;
- ii. Stage 2—Lifetime ECL: The loss allowance is measured at an amount equal to the lifetime expected credit losses if there is a significant increase in credit risk since initial recognition and the loan is not considered credit-impaired;
- iii. Stage 3—Lifetime ECL: The loss allowance is measured at an amount equal to the lifetime expected credit losses if the loan is considered credit-impaired.

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

Upon transition to IFRS 9, the allowance for ECL is calculated on the disbursed and undisbursed amounts of authorized loans and investment-grade asset-backed securities. The allowance on disbursed amounts is recorded against the assets whereas the allowance on the undisbursed amounts is recorded in other liabilities in the Consolidated Statement of Financial Position.

Definition of default

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

Write-off policy

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Major types of financial instruments

Cash equivalents

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

Upon transition to IFRS 9, cash equivalents are classified at amortized cost. Prior to the adoption of IFRS 9, cash equivalents were classified as loans and receivables.

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

Loans

Upon transition to IFRS 9, loans are classified and measured at amortized cost using the effective interest rate method, less allowance for expected credit losses. Prior to the adoption of IFRS 9, loans were classified as loans and receivables and 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—Policy applicable upon the adoption of IFRS 9 (April 1, 2018)

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

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

Allowance for credit losses—Policy applicable prior to the adoption of IFRS 9 (April 1, 2018)

Prior to the adoption of IFRS 9, 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 based on an incurred loss model. 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.

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Major types of financial instruments (continued)

Asset-backed securities

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

Upon transition to IFRS 9, investment-grade senior notes are classified as fair value through other comprehensive income, and subordinated notes are classified as fair value through profit or loss on the basis that they are reported to and evaluated by senior management on a fair value basis. Prior to the adoption of IFRS 9, investment-grade senior notes are classified as available-for-sale, and subordinated notes are designated as at fair value through profit or loss. ABS presented in the Consolidated Statement of Financial Position include accrued interest receivable.

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

As required by IFRS 9, expected credit losses are calculated on the disbursed and undisbursed portfolio of investment grade senior notes since they are classified at FVOCI. No impairment is calculated on the subordinated notes since they are classified at FVTPL. Upon transition to IFRS 9, all of the investment-grade senior notes are considered low credit risk, and therefore the low credit risk simplification is used and the impairment is calculated based on 12-month expected credit losses. ABS credit risk is monitored quarterly using internal credit risk rating methodology.

Impairment of asset-backed securities—Policy applicable prior to the adoption of IFRS 9 (April 1, 2018)

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 6—*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.

Subordinate financing and venture capital investments

Upon initial recognition, subordinate financing and venture capital investments are classified (designated prior to the adoption of IFRS 9) 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. Upon transition to IFRS 9, undisbursed amounts of subordinate financing investments are designated as measured at fair value through profit or loss to avoid an accounting mismatch between the undisbursed and outstanding investments measured at FVTPL.

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Major types of financial instruments (continued)

Derivatives

Derivative financial instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, stock market indices or other financial instrument measures. BDC acquires derivative financial instruments to manage exposures to interest, currency and other market risks. BDC does not hold derivatives for speculative or trading purposes. Upon transition to IFRS 9, derivatives are classified at fair value through profit or loss. Prior to April 1, 2018, derivatives were 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.

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

Prior to the adoption of IFRS 9, embedded derivatives that are not closely related to financial asset and liability host contracts 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 March 31, 2019, and March 31, 2018, BDC had no embedded derivatives that needed to be separated from a host contract because the entire instrument was designated at fair value through profit or loss.

Borrowings

Short-term notes are measured at amortized cost.

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

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

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

3. Significant accounting policies (continued)

Interest income, 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 classified as FVTPL (designated as at FVTPL prior to April 1, 2018), 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 reliably measured.

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

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

Revenue from Advisory Services

Advisory Services provides advisory services to entrepreneurs. Revenues from Advisory Services 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	5 years	Other expenses
Furniture, fixtures and equipment	10 years	Premises and equipment
Leasehold improvements	Lease term	Premises and equipment

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

3. Significant accounting policies (continued)

Property and equipment and intangible assets (continued)

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

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

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

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

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

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

Net defined benefit asset or liability

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

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

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

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

3. Significant accounting policies (continued)

Net defined benefit asset or liability (continued)

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

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

Equity attributable to BDC's shareholder

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

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

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

Translation of foreign currencies

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

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

Segmented information

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

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

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

4.

Adoption of IFRS 9

The following table summarizes the impact on classification and measurement to BDC's financial assets and liabilities upon transition to IFRS 9 on April 1, 2018.

	Classification and measurement		Reconciliation of carrying amount		
	Original (IAS 39)	New (IFRS 9)	As at March 31, 2018 (IAS 39)	Remeasurement	As at April 1, 2018 (IFRS 9)
ASSETS					
Cash and cash equivalents ⁽¹⁾	Loans and receivables	Amortized cost	672,870	-	672,870
Derivative assets	Held-for-trading	FVTPL	15,357	-	15,357
Loans	Loans and receivables	Amortized cost			
Loans, gross carrying amount			24,432,831	21,244	24,454,075
Less: allowance for credit losses			(704,640)	132,193	(572,447)
Loans, net of allowance for credit losses			23,728,191	153,437	23,881,628
Investments					
Asset-backed securities					
Fair value through other comprehensive income ⁽¹⁾	Available-for-sale	FVOCI	465,216	-	465,216
Fair value through profit or loss	FVTPL (Designated) ⁽²⁾	FVTPL	7,479	-	7,479
Total asset-backed securities			472,695	-	472,695
Subordinate financing investments	FVTPL (Designated) ⁽²⁾	FVTPL	1,052,352	-	1,052,352
Venture capital investments	FVTPL (Designated) ⁽²⁾	FVTPL	1,663,627	-	1,663,627
Total investments			3,188,674	-	3,188,674
Other financial assets ⁽¹⁾	Loans and receivables	Amortized cost	9,285	-	9,285
Other non financial assets			194,789	-	194,789
Other assets			204,074	-	204,074
Total assets			27,809,166	153,437	27,962,603

(1) ECL allowances for other financial assets classified at amortized cost and FVOCI were immaterial as at April 1, 2018.

(2) Investments other than loans held by BDC meet the criteria for mandatory measurement at FVTPL because the contractual cash flows of these investments are not solely payments of principal and interest on the principal outstanding. Before the adoption of IFRS 9, these investments were designated as at FVTPL because BDC manages them on a fair value basis in accordance with a documented investment strategy. There was no impact on retained earnings upon transition to IFRS 9 on April 1, 2018.

4. Adoption of IFRS 9 (continued)

	Classification and measurement		Reconciliation of carrying amount		
	Original (IAS 39)	New (IFRS 9)	As at March 31, 2018 (IAS 39)	Remeasurement	As at April 1, 2018 (IFRS 9)
LIABILITIES AND EQUITY					
Liabilities					
Accounts payable and accrued liabilities	Financial liabilities	Amortized cost	127,453	-	127,453
Derivative liabilities	Held-for-trading	FVTPL	3,387	-	3,387
Borrowings					
Short-term notes	Financial liabilities	Amortized cost	20,481,148	-	20,481,148
Long-term notes					
Amortized cost	Financial liabilities	Amortized cost	-	-	-
Designated at fair value through profit or loss	FVTPL (Designated)	FVTPL (Designated)	137,684	-	137,684
Total long-term notes			137,684	-	137,684
Total borrowings			20,618,832	-	20,618,832
Other financial liabilities ⁽¹⁾	Financial liabilities	Amortized cost	35,507	21,687	57,194
Other non financial liabilities			264,784	-	264,784
Other liabilities			300,291	21,687	321,978
Total liabilities			21,049,963	21,687	21,071,650
Equity					
Share capital			2,477,900	-	2,477,900
Contributed surplus			27,778	-	27,778
Retained earnings			4,211,785	131,750	4,343,535
Accumulated other comprehensive income			(991)	-	(991)
Equity attributable to BDC's shareholder			6,716,472	131,750	6,848,222
Non-controlling interests			42,731	-	42,731
Total equity			6,759,203	131,750	6,890,953
Total liabilities and equity			27,809,166	153,437	27,962,603

(1) Includes allowance for credit losses on loan commitments.

The following table is a reconciliation of the closing allowance for credit losses in accordance with IAS 39 as at March 31, 2018 to the opening allowance for credit losses determined in accordance with IFRS 9 as at April 1, 2018.

	Allowance for credit losses as at March 31, 2018 (IAS 39)	Remeasurement	Allowance for credit losses as at April 1, 2018 (IFRS 9)
Loans	704,640	(132,193)	572,447
Other liabilities ⁽¹⁾	-	21,687	21,687
Total	704,640	(110,506)	594,134

(1) Allowance for credit losses on loan commitments.

5.

Future accounting changes

As at March 31, 2019, certain new standards, amendments and interpretations to existing standards had been published by the International Accounting Standards Board (IASB) but had not been adopted early by BDC. These standards include IFRS 16, *Leases*, and the Conceptual Framework described below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on BDC's Consolidated Financial Statements.

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, which for BDC is April 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. For lessors, the new standard does not provide any significant changes other than increased disclosure requirements. BDC has completed its assessment of IFRS 16 and has elected to apply the following transition reliefs and practical expedients:

- > Existing contracts at the date of transition will not be reassessed to determine whether they are, or contain, a lease under IFRS 16.
- > Follow the modified retrospective approach under which a lessee does not restate comparative information, using the option where the right of use asset is equal to the lease liability, less an adjustment for prepaids and accrued payments.

BDC estimates this new standard to result in the recognition of right of use asset of approximately \$116 million and the recognition of lease liability of approximately \$123 million. BDC also expects a decrease in its premises and equipment expenses, offset by a corresponding increase in its interest and depreciation expenses resulting from the change in recognition, measurement and presentation requirements. However, no significant impact on net income is expected at this time.

Conceptual Framework

On March 29, 2018, the IASB issued the revised Conceptual Framework for Financial Reporting (Framework) replacing the previous version issued in 2010. The Framework is effective immediately for the IASB and IFRS Interpretations Committee, but has an effective date of January 1, 2020, which will be April 1, 2020 for BDC, with early adoption permitted. The Framework includes some new concepts, provides revised definitions and recognition criteria for assets and liabilities, and clarifies some important concepts. BDC is currently assessing the impact of adopting the Framework.

6.

Significant accounting judgements, estimates and assumptions

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

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

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

Allowance for credit losses—Upon transition to IFRS 9 (April 1, 2018)

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

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

Upon adoption of IFRS 9, impaired loans are considered in Stage 3. All other loans are either considered in Stage 1 or in Stage 2 if a significant increase in credit risk has occurred. If the increase in credit risk is no longer considered significant, loans will move back to Stage 1 and if the loans are no longer considered impaired, they will move back to Stage 1 or 2. Assumptions used to determine whether there is a significant increase in credit risk include a significant increase in the expected lifetime probability of default since origination, loans that are 30 days past due or on the watchlist. Qualitative management overlays may also be applied, as required, to account for loans that have experienced a significant increase in risk. The ECL is calculated for each exposure, taking into account the financial instrument's forward-looking probability of default, loss given default and exposure at default. IFRS 9 requires current and expected economic conditions for multiple scenarios to be taken into account in determining whether there has been a significant increase in credit risk and in calculating the amount of expected losses. BDC considers three forward-looking scenarios which are probability weighted. The "base case" represents the most likely scenario under current and forward-looking economic conditions, whereas the "upside" and "downside" differ relative to the base case based on plausible economic conditions. Management judgement is required in the application of forward-looking information.

Allowance for credit losses - Prior to the adoption of IFRS 9 (April 1, 2018)

Prior to the adoption of IFRS 9, 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.

Prior to the adoption of IFRS 9, 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 10—*Loans*, for more information on the allowance for credit losses.

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

Impairment of assets at fair value through other comprehensive income

Effective April 1, 2019, a three-stage impairment model incorporating inputs such as internal risk ratings and industry defaults statistics is used to estimate the expected credit losses on investment-grade asset-backed securities.

Fair value of financial instruments

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

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

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

Qualifying hedge relationships

BDC ceased hedge accounting on March 31, 2018. Prior to that date, in designating financial instruments in qualifying hedge relationships, BDC had determined that it expected the hedges to be highly effective over the period of the hedging relationship. In accounting for derivatives as cash flow hedges, BDC had determined that the hedged cash flow exposure related 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.

Refer to Note 19—*Net defined benefit asset or liability* for additional information about the key assumptions.

Impairment of available-for-sale assets (before April 1, 2018)

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.

7.

Classification and fair value of financial instruments

Classification of financial instruments

The following tables summarize the classification of BDC's financial instruments as at March 31, 2019, and March 31, 2018.

March 31, 2019						
	Note	Measured at fair value			Measured at amortized cost	Total
		FVTPL ⁽¹⁾				
		FVTPL	Designated as at FVTPL	FVOCI ⁽²⁾		
Financial assets						
Cash and cash equivalents	8				703,980	703,980
Derivative assets	9	10,342				10,342
Loans, net of allowance for credit losses	10				25,916,222	25,916,222
Asset-backed securities	11	9,543		690,800		700,343
Subordinate financing investments	12	1,152,182				1,152,182
Venture capital investments	13	2,027,778				2,027,778
Other assets ⁽³⁾	16				9,862	9,862
Total financial assets		3,199,845	-	690,800	26,630,064	30,520,709
Financial liabilities						
Accounts payable and accrued liabilities	17				141,412	141,412
Derivative liabilities	9	5,940				5,940
Short-term notes	18				20,951,914	20,951,914
Long-term notes	18		136,028		1,306,622	1,442,650
Other liabilities ⁽³⁾	20				62,555	62,555
Total financial liabilities		5,940	136,028	-	22,462,503	22,604,471

(1) Fair value through profit or loss.

(2) Fair value through other comprehensive income.

(3) Certain items within the other assets and other liabilities categories on the Consolidated Statement of Financial Position are not considered to be financial instruments.

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

Classification of financial instruments (continued)

							March 31, 2018
	Note	Measured at fair value			Measured at amortized cost		Total
		FVTPL ⁽¹⁾			Loans and receivables	Financial liabilities	
		Held-for-trading	Designated as at FVTPL	Available-for-sale			
Financial assets							
Cash and cash equivalents	8				672,870		672,870
Derivative assets	9	15,357					15,357
Loans, net of allowance for credit losses	10				23,728,191		23,728,191
Asset-backed securities	11		7,479	465,216			472,695
Subordinate financing investments	12		1,052,352				1,052,352
Venture capital investments	13		1,663,627				1,663,627
Other assets ⁽²⁾	16				9,285		9,285
Total financial assets		15,357	2,723,458	465,216	24,410,346	-	27,614,377
Financial liabilities							
Accounts payable and accrued liabilities	17					127,453	127,453
Derivative liabilities	9	3,387					3,387
Short-term notes	18					20,481,148	20,481,148
Long-term notes	18		137,684				137,684
Other liabilities ⁽²⁾	20					35,507	35,507
Total financial liabilities		3,387	137,684	-	-	20,644,108	20,785,179

(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.

Financial instruments carried at amortized cost

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

	March 31, 2019			March 31, 2018		
	Fair value hierarchy level	Fair value	Carrying value	Fair value hierarchy level	Fair value	Carrying value
Financial assets measured at amortized cost						
Loans	2	25,930,345	25,916,222	2	23,565,568	23,728,191
Financial liabilities measured at amortized cost						
Short-term notes	1	20,951,343	20,951,914	1	20,480,448	20,481,148
Long-term notes	2	1,343,276	1,306,622	-	-	-

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

Financial instruments carried at amortized cost (continued)

Loans measured at amortized cost

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

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

Short-term notes measured at amortized cost

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

Long-term notes measured at amortized cost

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

Financial instruments measured at fair value

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

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

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

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

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

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

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

Financial instruments measured at fair value (continued)

	Fair value measurements using			March 31, 2018
	Level 1	Level 2	Level 3	Total fair value
Assets				
Derivative assets		15,357		15,357
Asset-backed securities		472,695		472,695
Subordinate financing investments	1,900		1,050,452	1,052,352
Venture capital investments	149,850		1,513,777	1,663,627
	151,750	488,052	2,564,229	3,204,031
Liabilities				
Derivative liabilities		3,387		3,387
Long-term notes designated as at fair value through profit or loss		137,684		137,684
	-	141,071	-	141,071

The following tables detail the changes in fair value measurement for financial instruments included in Level 3 of the fair value hierarchy. The procedures and valuation techniques used to determine the fair values of subordinate financing and venture capital investments included in Level 3 are described in Note 3—*Significant accounting policies*. These valuation techniques draw upon diverse unobservable inputs, none of which, with the exception of the risk-free interest rate, is individually significant enough to have a material impact on BDC's net income if it varied within reasonable possible ranges. For subordinate financing investments, the impact of a 1% variation in the risk-free rate would result in a gain or loss of \$10.2 million in the current period and an equivalent change in retained earnings (\$9.3 million in 2018).

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

	March 31, 2018		
	Subordinate financing investments	Venture capital investments	Total
Fair value as at April 1, 2017	859,043	1,303,779	2,162,822
Net realized gains (losses) on investments	3,472	(23,909)	(20,437)
Net change in unrealized appreciation (depreciation) of investments	1,409	225,894	227,303
Net unrealized foreign exchange gains (losses) on investments	-	(17,094)	(17,094)
Disbursements for investments	401,332	246,072	647,404
Repayments of investments and other	(211,582)	(124,262)	(335,844)
Transfers from Level 3 to Level 1	(3,222)	(96,703)	(99,925)
Fair value as at March 31, 2018	1,050,452	1,513,777	2,564,229

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

Financial instruments measured at fair value (continued)

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

	2019	2018
Net realized gains (losses) on investments	57,040	15,239
Net change in unrealized appreciation (depreciation) of investments	58,234	160,354
Net unrealized foreign exchange gains (losses) on investments	18,701	(16,258)
Total gains (losses) related to level 3 assets still held at the end of the reporting period	133,975	159,335

8.

Cash and cash equivalents

As at March 31, 2019, and March 31, 2018, there are no restrictions on cash and cash equivalents. Cash and cash equivalents include the following components.

	March 31, 2019	March 31, 2018
Cash	54,316	25,348
Short-term bank notes	649,664	647,522
Cash and cash equivalents	703,980	672,870

9.

Derivative financial instruments

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

Swaps

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

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

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

9. Derivative financial instruments (continued)

Forwards

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

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

Foreign exchange rate

BDC economically hedges its long-term borrowings with cross-currency interest rate swaps, and its loans and subordinate financing investments with foreign exchange forward contracts. Venture capital investments are economically hedged following the occurrence of a liquidity event. These instruments are classified as fair value through profit and loss (held-for-trading before April 1, 2018).

Interest rate

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

BDC also uses derivative financial instruments as an economic hedge for its structured notes. These instruments include interest rate swaps and cross-currency interest rate swaps. These instruments have been classified as fair value through profit and loss (held-for-trading before April 1, 2018).

The following tables provide the fair value of BDC's derivatives portfolio as represented by gross assets and gross liabilities values. Refer to Note 23—*Risk management*, for additional information on master netting agreements and collateral associated with derivatives.

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

	March 31, 2018		
	Gross assets	Gross liabilities	Net amount
Interest rate swap contracts	13,980	2,349	11,631
Cross-currency interest rate swap contracts	630	–	630
Foreign exchange forward contracts	747	1,038	(291)
Total derivative financial instruments	15,357	3,387	11,970

9. Derivative financial instruments (continued)

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

	Term to maturity or repricing				March 31, 2019	March 31, 2018
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	Notional amount	Notional amount
Interest rate swap contracts	-	124,139	-	-	124,139	549,139
Cross-currency interest rate swap contracts	-	2,554	-	-	2,554	2,554
Foreign exchange forward contracts	660,097	-	-	-	660,097	383,016
Total derivative financial instruments	660,097	126,693	-	-	786,790	934,709

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

10. Loans

The following tables summarize loans outstanding by contractual maturity date.

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

					2018			
	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	278,952	2,817,245	20,566,062	23,662,259	(411,000)	-	(411,000)	23,251,259
Impaired	23,534	118,748	628,290	770,572	-	(293,640)	(293,640)	476,932
Loans as at March 31, 2018	302,486	2,935,993	21,194,352	24,432,831	(411,000)	(293,640)	(704,640)	23,728,191

10. Loans (continued)

Allowance for credit losses

The following table shows a reconciliation from the opening to the closing balance of the credit loss allowance.

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

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

(2) Explains the movement in the allowance for credit losses attributable to changes in the gross carrying amount and credit risk of existing loans, changes to inputs and assumptions and partial repayments.

	March 31, 2018
Balance at beginning of year	696,882
Write-offs	(138,241)
Effect of discounting	(16,363)
Recoveries and other	8,823
	551,101
Provision for credit losses	153,539
Balance as at March 31, 2018	704,640

Impaired loans

	March 31, 2018
Impaired at beginning of year	718,296
Downgraded	538,897
Upgraded	(100,045)
Write-offs	(138,241)
Liquidation and other	(248,335)
Balance as at March 31, 2018	770,572

10. Loans (continued)

Key input and assumptions

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

- > Changes in the forward-looking macro-economic conditions of multiple scenarios;
- > Change in macro-economic scenarios and their respective weighting;
- > Changes in the credit risk of loans as reflected by changes in the internal risk ratings;
- > Change in volume of new loans and portfolio growth;
- > Loan exposure migration between the stages because of changes of the above inputs and assumptions.

Forward-looking information

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

Sensitivity of expected credit losses

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

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

(1) Includes loans and loans commitments.

Credit risk

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

As at March 31, 2019, \$69.7 million (\$47.8 million as at March 31, 2018) of the impaired loans was secured by assets that BDC had the power to sell in order to satisfy borrower commitments. BDC's policy is to have these assets sold when other avenues of resolution have been exhausted.

10. Loans (continued)

Credit risk (continued)

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

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

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

BDC rating	Grade equivalent	March 31,	
		2018	%
0.5 to 1.0	Investment grade	1,572,039	7%
1.5 to 2.0	Non-investment grade	6,751,730	28%
2.5 to 4.0		12,079,957	51%
4.5 to 5.0		2,404,276	10%
5.5	Watchlist	854,257	4%
Performing loans outstanding		23,662,259	100%

The following table summarizes loans outstanding, classified by secured risk exposure coverage.

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

Secured risk exposure	March 31,	
	2018	%
Secured financing ⁽¹⁾	17,830,613	75%
Partially secured financing ⁽²⁾	2,253,841	10%
Leverage financing ⁽³⁾	3,577,805	15%
Performing loans outstanding	23,662,259	100%

(1) % of security shortfall at authorization is less than 30%.

(2) % of security shortfall at authorization is between 31% and 60%.

(3) % of security shortfall at authorization is over 60%.

10. Loans (continued)

Credit risk (continued)

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

Loans past due but not impaired	Within 1 month	1 to 3 months	Over 3 months	Total
As at March 31, 2019	117,325	52,639	6,640	176,604
As at March 31, 2018	131,943	36,732	6,599	175,274

Concentrations of the total loans outstanding and undisbursed amounts of authorized loans, by province and territory and by industry sector, are set out in the tables below. The largest concentration in one individual or closely related group of clients was less than 1% as at March 31, 2019, and March 31, 2018.

Undisbursed amounts of authorized loans stood at \$3,398,260 as at March 31, 2019 (\$885,372 fixed rate; \$2,512,888 floating rate). The weighted-average effective interest rate was 5.4% on loan commitments (5.0% as at March 31, 2018).

Geographic distribution	March 31, 2019		March 31, 2018	
	Outstanding	Commitments	Outstanding	Commitments
Newfoundland and Labrador	872,253	64,505	877,891	65,037
Prince Edward Island	76,710	742	70,651	10,729
Nova Scotia	611,653	84,699	562,650	78,644
New Brunswick	503,653	56,362	494,334	39,447
Quebec	8,391,225	871,593	7,658,985	877,635
Ontario	7,274,249	1,041,457	6,689,723	841,715
Manitoba	809,126	77,695	726,386	132,416
Saskatchewan	805,488	44,786	800,563	50,501
Alberta	3,794,416	607,375	3,545,959	523,994
British Columbia	3,248,568	524,922	2,855,772	461,037
Yukon	108,785	16,102	108,548	3,561
Northwest Territories and Nunavut	49,338	8,022	41,369	2,820
Total loans outstanding	26,545,464	3,398,260	24,432,831	3,087,536

Industry sector	March 31, 2019		March 31, 2018	
	Outstanding	Commitments	Outstanding	Commitments
Manufacturing	6,172,012	855,002	5,611,342	828,926
Wholesale and retail trade	4,925,716	527,819	4,579,060	440,197
Service industries	3,818,955	465,564	3,438,475	392,878
Tourism	3,213,509	404,885	3,046,763	414,777
Commercial properties	2,894,525	176,480	2,674,608	155,636
Construction	2,031,354	286,689	1,903,043	231,517
Transportation and storage	1,550,291	201,925	1,386,700	168,158
Resources	1,062,907	279,786	1,018,978	285,659
Other	876,195	200,110	773,862	169,788
Total loans outstanding	26,545,464	3,398,260	24,432,831	3,087,536

10. Loans (continued)

Credit risk (continued)

The following table summarizes loan commitments outstanding by client credit risk exposure based on BDC classification.

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

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

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

11.

Asset-backed securities

The following table summarizes ABS by classification of financial instruments. As at March 31, 2019, \$39,867 in ABS had maturities of less than five years (\$17,473 as at March 31, 2018) and \$660,476 had maturities over five years (\$455,222 as at March 31, 2018). The ABS may be redeemed by the issuing trust at par depending on the terms of the securitization deal if the balance of the underlying assets or, in some cases, the balance of the notes, amortizes below 10% of the original balance at issuance. No ABS were impaired as at March 31, 2019, and March 31, 2018. No allowance for credit losses was recorded for disbursed and undisbursed ABS at fair value through other comprehensive income as at March 31, 2019. Refer to Note 23—*Risk management*, for additional information on credit risk associated with the ABS portfolio.

	March 31, 2019	March 31, 2018
Fair value through other comprehensive income (Available-for-sale prior to April 1, 2018)		
Principal amount	688,049	469,492
Cumulative fair value appreciation (depreciation)	2,751	(4,276)
Carrying value	690,800	465,216
Yield	2.66%	2.19%
Fair value through profit or loss		
Principal amount	9,450	7,543
Cumulative fair value appreciation (depreciation)	93	(64)
Carrying value	9,543	7,479
Yield	7.86%	7.79%
Asset-backed securities	700,343	472,695

Undisbursed amounts of authorized asset-backed securities were \$299,000 as at March 31, 2019 (\$403,000 as at March 31, 2018).

12.

Subordinate financing investments

BDC maintains a medium- to high-risk portfolio of subordinate financing investments. The following table summarizes outstanding subordinate financing investments by their contractual maturity date.

	Within 1 year	1 to 5 years	Over 5 years	Total cost	Total fair value
As at March 31, 2019	157,105	686,162	357,600	1,200,867	1,152,182
As at March 31, 2018	94,090	717,299	278,101	1,089,490	1,052,352

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

12. Subordinate financing investments (continued)

The concentrations of subordinate financing investments and undisbursed amounts of authorized subordinate financing investments, by geographic and industry distribution, are set out in the tables below. The largest concentration in one individual or closely related group of clients as at March 31, 2019, was 1.9% of total subordinate financing investments at cost (2.1% as at March 31, 2018). The subordinate financing portfolio is composed primarily of debentures.

Undisbursed amounts of authorized subordinate financing investments were \$201,066 as at March 31, 2019 (\$84,050 fixed rate; \$117,016 floating rate). The weighted-average effective interest rate was 9.0% on subordinate financing commitments (10.0% as at March 31, 2018), excluding non-interest return.

Geographic distribution	March 31, 2019			March 31, 2018		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Newfoundland and Labrador	20,059	24,952	7,225	5,439	10,694	374
Nova Scotia	11,879	12,810	–	13,227	16,260	1,000
New Brunswick	25,584	23,496	1,200	23,353	22,122	4,200
Quebec	455,713	459,756	41,660	413,215	422,895	27,721
Ontario	378,353	412,000	80,685	356,729	362,113	62,112
Manitoba	713	2,101	–	7,382	5,864	–
Saskatchewan	51,023	51,337	–	46,111	48,557	1,100
Alberta	90,591	104,241	9,844	103,504	117,849	3,437
British Columbia	114,348	106,358	60,452	78,181	77,941	8,500
Yukon	450	443	–	542	565	–
Northwest Territories and Nunavut	3,469	3,373	–	4,669	4,630	–
Subordinate financing investments	1,152,182	1,200,867	201,066	1,052,352	1,089,490	108,444

Industry sector	March 31, 2019			March 31, 2018		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Manufacturing	389,911	409,767	90,817	316,080	329,636	44,948
Service industries	316,625	320,662	43,472	283,565	291,641	27,895
Wholesale and retail trade	187,763	200,700	38,235	203,862	212,427	14,784
Information industries	65,332	66,343	10,575	58,201	58,124	7,450
Construction	57,165	58,698	10,000	66,390	65,418	6,200
Transportation and storage	44,859	48,042	3,450	26,298	30,454	2,650
Resources	40,387	58,791	350	49,906	69,166	1,767
Tourism	11,647	11,625	4,167	8,562	8,867	2,750
Educational services	6,466	6,386	–	8,307	8,157	–
Commercial properties	1,791	1,734	–	–	–	–
Other	30,236	18,119	–	31,181	15,600	–
Subordinate financing investments⁽¹⁾	1,152,182	1,200,867	201,066	1,052,352	1,089,490	108,444

(1) Subordinate financing commitments included \$550 in the Financing segment, \$142,308 in the Growth & Transition Capital segment and \$58,208 in the Cleantech Practice segment as at March 31, 2019 (\$1,500, \$86,770 and \$20,174, respectively, as at March 31, 2018).

13.

Venture capital investments

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

VC is focused on early-stage and fast-growing technology companies having promising positions in their respective marketplaces and strong growth potential. VCIP comprises two federal government initiatives: Venture Capital Action Plan (VCAP) and Venture Capital Catalyst Initiative (VCCI). In past years, VC and VCIP (previously VCAP) investments were presented separately in the Consolidated Statement of Financial Position. Starting in fiscal 2019, in order to group financial instruments having the same nature, BDC combines VC, VCIP and Cleantech Practice venture capital investments and presents them as venture capital investments. Comparative information for previous years has been reclassified accordingly.

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

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

Venture Capital Catalyst Initiative (VCCI) is also a government-sponsored initiative whereby \$450 million is made available through BDC over three years to provide late-stage venture capital to support the growth of innovative start-ups.

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

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

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

Investment type	March 31, 2019			March 31, 2018		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Direct investments						
Venture Capital	906,780	603,198	13,275	726,227	544,303	31,442
Funds ⁽¹⁾						
Venture Capital	659,447	418,244	382,140	536,884	378,549	319,885
Venture Capital Action Plan	461,547	368,694	22,761	400,516	363,269	26,715
Venture Capital Catalyst Initiative	4	4	298,265	-	-	-
Venture Capital Incentive Programs	461,551	368,698	321,026	400,516	363,269	26,715
Cleantech Practice	-	-	40,024	-	-	-
	1,120,998	786,942	743,190	937,400	741,818	346,600
Venture capital investments	2,027,778	1,390,140	756,465	1,663,627	1,286,121	378,042

(1) As at March 31, 2019, BDC has invested in 76 funds through its VC segment, 17 funds through its VCIP segment and 2 funds through its Cleantech Practice segment (70, 8 and no funds, respectively, as at March 31, 2018).

13. Venture capital investments (continued)

The concentrations by industry sector for direct investments are listed below. The largest single investment within these sectors as at March 31, 2019, was 5.93% of total venture capital direct investments at cost (6.35% as at March 31, 2018).

Industry sector	March 31, 2019			March 31, 2018		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Information technology	364,372	263,658	8,338	303,064	232,627	10,962
Biotechnology and pharmacology	278,487	87,102	–	174,424	85,288	3,150
Industrial	69,458	24,505	–	57,747	15,197	–
Communications	61,974	58,973	607	47,867	51,565	1,080
Electronics	49,789	55,818	3,252	54,064	56,141	3,570
Medical and health	26,424	56,852	1,078	28,810	53,883	2,680
Energy	22,651	36,570	–	33,258	35,394	10,000
Other	33,625	19,720	–	26,993	14,208	–
Total direct investments	906,780	603,198	13,275	726,227	544,303	31,442

14. Property and equipment

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

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

14. Property and equipment (continued)

	2018			
	Computer and telecommunications equipment	Furniture, fixtures and equipment	Leasehold improvements	Total
Cost				
Balance as at March 31, 2017	13,502	17,891	28,821	60,214
Additions	8,112	8,270	13,385	29,767
Derecognition ⁽¹⁾	(764)	(3,075)	(6,880)	(10,719)
Balance as at March 31, 2018	20,850	23,086	35,326	79,262
Accumulated depreciation				
Balance as at March 31, 2017	7,529	8,228	15,354	31,111
Depreciation	2,424	1,807	2,591	6,822
Derecognition ⁽¹⁾	(772)	(2,538)	(6,658)	(9,968)
Balance as at March 31, 2018	9,181	7,497	11,287	27,965
Property and equipment as at March 31, 2018	11,669	15,589	24,039	51,297

(1) Derecognition of \$10.7 million relates to property and equipment that are no longer in use.

No property and equipment were impaired as at March 31, 2019 and 2018.

15. Intangible assets

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

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

15. Intangible assets (continued)

	2018			
	Acquired systems and software applications	Internally generated systems and software applications	Projects in progress	Total
Cost				
Balance as at March 31, 2017	95,657	-	4,574	100,231
Additions, separately acquired	-	-	14,308	14,308
Derecognition ⁽¹⁾	(122)	-	-	(122)
Available for use	-	8,693	(8,693)	-
Balance as at March 31, 2018	95,535	8,693	10,189	114,417
Accumulated amortization				
Balance as at March 31, 2017	67,083	-	-	67,083
Amortization	8,620	630	-	9,250
Derecognition ⁽¹⁾	(122)	-	-	(122)
Balance as at March 31, 2018	75,581	630	-	76,211
Intangible assets as at March 31, 2018	19,954	8,063	10,189	38,206

(1) Derecognition of \$0.1 million relates to fully amortized intangible assets no longer in use.

16. Other assets

	March 31, 2019	March 31, 2018
Financial instruments measured at amortized cost		
Interest receivable on derivatives	704	1,257
Accounts receivable from advisory clients	2,087	1,990
Other	7,071	6,038
	9,862	9,285
Prepays and other	16,297	9,983
Other assets	26,159	19,268

17. Accounts payable and accrued liabilities

	March 31, 2019	March 31, 2018
Financial instruments measured at amortized cost		
Current		
Salaries and benefits payable	62,496	59,788
Accounts payable	15,298	5,483
Other	18,593	23,033
	96,387	88,304
Long-term accrued liabilities	45,025	39,149
Accounts payable and accrued liabilities	141,412	127,453

18.

Borrowings

The table below presents the outstanding short-term notes.

Maturity date	Effective rate	Currency	March 31, 2019		March 31, 2018	
			Principal amount ⁽¹⁾	Carrying value	Principal amount ⁽¹⁾	Carrying value
Short-term notes/ financial liabilities measured at amortized cost						
2019	1.05% - 1.10%	CAD			20,470,000	20,480,059
	1.55%	USD			844	1,089
2020	1.59% - 1.66%	CAD	20,935,000	20,950,785		
	2.31%	USD	844	1,129		
Total short-term notes				20,951,914		20,481,148

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

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

Maturity date	2019		2018	Currency	March 31, 2019		March 31, 2018	
	Effective rate ⁽¹⁾	Effective rate ⁽¹⁾			Principal amount ⁽²⁾	Carrying value	Principal amount ⁽²⁾	Carrying value
Long-term notes/ financial liabilities measured at amortized cost								
2022	2.32% - 2.37%			CAD	120,000	120,565	-	-
2023	2.07% - 2.16%			CAD	230,000	231,016	-	-
2024	1.66% - 2.27%			CAD	410,000	411,732	-	-
2025	2.06% - 2.45%			CAD	345,000	347,156	-	-
2026	2.24% - 2.27%			CAD	55,000	55,425	-	-
2027	2.09%			CAD	40,000	40,194	-	-
2028	2.10%			CAD	45,000	45,284	-	-
2029	2.10% - 2.11%			CAD	55,000	55,250	-	-
						1,306,622		-
Long-term notes/ designated at fair value through profit or loss								
2021	1.73%	1.35%		JPY	260,000	3,160	260,000	3,171
2022	1.62% - 1.72%	1.27% - 1.37%		CAD	124,139	132,868	124,139	134,513
						136,028		137,684
Total long-term notes						1,442,650		137,684

(1) The effective rates on long-term notes are established after giving effect to swap contracts, when applicable, and refer to yield to maturity for fixed-rate issues and yield to reset for floating-rate issues.

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

The total carrying value of the long-term notes designated at fair value through profit or loss as at March 31, 2019, was \$9,336 higher than the total principal amount due at maturity, given respective exchange rates (as at March 31, 2018, it was \$10,991 higher).

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

18. Borrowings (continued)

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

	March 31, 2019	March 31, 2018
Interest-bearing notes	1,439,490	134,513
Other structured notes	3,160	3,171
Total long-term notes	1,442,650	137,684

The following table shows the cash flows and non-cash changes for borrowings.

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

	Balance at beginning of period	Cash flows		Non-cash changes			Balance at end of period
		Issuances	Repayments	Fair value changes	Accrued interests	Changes in foreign exchange rate	
2018							
Other financial liabilities							
Short-term notes	18,809,436	26,175,000	(24,510,000)	-	6,748	(36)	20,481,148
Long-term notes	5,606	-	(5,600)	-	(6)	-	-
	18,815,042	26,175,000	(24,515,600)	-	6,742	(36)	20,481,148
Designated at fair value through profit or loss							
Long-term notes	161,785	-	(15,575)	(1,125)	(689)	(6,712)	137,684
	18,976,827	26,175,000	(24,531,175)	(1,125)	6,053	(6,748)	20,618,832

19.

Net defined benefit asset or liability

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

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

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

- > The Management Pension Funds Investment Committee (MPFIC) of BDC is established to act in an advisory capacity to the Human Resources Committee of the Board (HR Committee) on the Funds' investment strategies and to manage the funds according to the statements of investment policies. The MPFIC reports to the HR Committee and is chaired by the Treasurer.
- > The HR Committee is responsible for design, funding, administration, communications and compliance related to the plans, as well as for overseeing—in conjunction with a pensioner, acting as an observer—all activities related to the investments of the funds of the Pension Plan for Employees of the Business Development Bank of Canada (registered pension plan) and BDC's supplemental pension plans (jointly referred to as the fund). The HR Committee reports directly to the board, comprises board members and is supported by BDC's MPFIC.
- > The board is responsible for overall monitoring of the plans and the fund, and for approving recommendations from the HR Committee.

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

The registered pension plan is either partly or wholly funded in accordance with actuarially determined amounts required to satisfy employee benefit entitlements. Benefits accruing to members of the contributory component of the registered pension plan are also funded by contributions by plan participants. BDC's best estimate of contributions to be paid for fiscal 2020 for the registered pension plan is \$26.6 million. The supplemental pension plans are partly funded by BDC and BDC's best estimate of contributions for fiscal 2020 is \$7.8 million. The other benefit plans are wholly unfunded. Estimated BDC-paid benefits for other post-employment benefit plans (including the retirement allowance plan) for fiscal 2020 amount to \$6.7 million.

19. Net defined benefit asset or liability (continued)

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

	Registered pension plan		Supplemental pension plans		Other plans		Total	
	2019	2018	2019	2018	2019	2018	2019	
Fair value of net plan assets at beginning of year	1,566,494	1,452,648	75,406	69,711	-	-	1,641,900	1,522,359
Interest income	57,168	56,888	2,871	2,845	-	-	60,039	59,733
Employer contributions	27,130	34,281	7,420	7,209	-	-	34,550	41,490
Participant contributions	25,368	23,210	-	-	-	-	25,368	23,210
Benefit payments from plan	(51,801)	(44,026)	(4,594)	(4,199)	-	-	(56,395)	(48,225)
Administrative expenses paid from plan assets	(1,216)	(1,442)	(53)	(135)	-	-	(1,269)	(1,577)
Remeasurements								
Return on plan assets (excluding interest income)	12,339	44,935	(2,796)	(25)	-	-	9,543	44,910
Fair value of net plan assets at end of year	1,635,482	1,566,494	78,254	75,406	-	-	1,713,736	1,641,900
Defined benefit obligation at beginning of year	1,471,191	1,331,550	141,930	128,886	188,701	172,323	1,801,822	1,632,759
Current service cost	48,058	44,571	3,789	3,571	8,192	7,404	60,039	55,546
Interest expense	52,753	51,072	5,096	4,945	6,769	6,593	64,618	62,610
Benefit payments from plan	(51,801)	(44,026)	(4,594)	(4,199)	-	-	(56,395)	(48,225)
Benefit payments from employer	-	-	-	-	(5,779)	(5,819)	(5,779)	(5,819)
Participant contributions	25,368	23,210	-	-	-	-	25,368	23,210
Remeasurements								
Effect of changes in demographic assumptions	-	-	-	-	(499)	4,927	(499)	4,927
Effect of changes in financial assumptions	65,559	69,571	6,124	5,826	11,773	7,600	83,456	82,997
Effect of experience adjustments	3,871	(4,757)	2,432	2,901	(3,474)	(4,327)	2,829	(6,183)
Defined benefit obligation at end of year	1,614,999	1,471,191	154,777	141,930	205,683	188,701	1,975,459	1,801,822
Total net defined benefit asset	20,483	95,303	-	-	-	-	20,483	95,303
Total net defined benefit liability	-	-	76,523	66,524	205,683	188,701	282,206	255,225

19. Net defined benefit asset or liability (continued)

	Registered pension plan		Supplemental pension plans		Other plans		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Expense recognized in net income								
Current service cost	48,058	44,571	3,789	3,571	8,192	7,404	60,039	55,546
Interest expense on defined benefit obligation	52,753	51,072	5,096	4,945	6,769	6,593	64,618	62,610
Interest income on plan assets	(57,168)	(56,888)	(2,871)	(2,845)	-	-	(60,039)	(59,733)
Administrative expenses	1,216	1,442	53	135	-	-	1,269	1,577
Expense recognized in net income	44,859	40,197	6,067	5,806	14,961	13,997	65,887	60,000
Remeasurements recognized in OCI								
Effect of changes in demographic assumptions	-	-	-	-	499	(4,927)	499	(4,927)
Effect of changes in financial assumptions	(65,559)	(69,571)	(6,124)	(5,826)	(11,773)	(7,600)	(83,456)	(82,997)
Effect of experience adjustments	(3,871)	4,757	(2,432)	(2,901)	3,474	4,327	(2,829)	6,183
Return on plan assets (excluding interest income)	12,339	44,935	(2,796)	(25)	-	-	9,543	44,910
Remeasurement gain (loss) recognized in OCI	(57,091)	(19,879)	(11,352)	(8,752)	(7,800)	(8,200)	(76,243)	(36,831)

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

Investment type	March 31, 2019			March 31, 2018		
	Quoted on active market	Unquoted	Total	Quoted on active market	Unquoted	Total
Cash	20,465	-	20,465	20,076	-	20,076
Short-term investments	-	9,625	9,625	-	14,167	14,167
Bonds						
Government of Canada	-	352,155	352,155	-	320,442	320,442
Canadian provinces	-	220,621	220,621	-	195,834	195,834
Canadian corporate and municipal	-	79,905	79,905	-	68,175	68,175
Equity investments						
Canadian equity	177,714	137,323	315,037	165,430	117,352	282,782
Global equity	529,136	-	529,136	563,646	40,599	604,245
Private market	-	137,255	137,255	-	91,165	91,165
Credit spread overlay strategy, net ⁽¹⁾	57	4,863	4,920	880	5,317	6,197
Other	-	44,617	44,617	-	38,817	38,817
Fair value of net plan assets	727,372	986,364	1,713,736	750,032	891,868	1,641,900

(1) The credit spread overlay strategy described below is presented net of investment-related liabilities of \$1,166.9 million (\$999.6 million as at March 31, 2018).

19. Net defined benefit asset or liability (continued)

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

According to the policy, the portfolio can be divided into three large categories of investments: fixed income assets, equity investments and private market investments. The target for fixed income assets is set at 40.0% (40.0% in 2018) of the fair market value of the portfolio. The target for investments in equity should represent approximately 50.0% (55.0% in 2018) of the fair market value of the portfolio: 32.0% in global equity (37.0% in 2018) and 18.0% in Canadian equity (18.0% in 2018). The target for private market investments should represent approximately 10.0% (5.0% in 2018) of the fair market value of the portfolio. The targets exclude the positions from the provincial credit spread overlay strategy described below. The positioning of the asset mix is reviewed monthly to assess the need for rebalancing.

The Fund has a provincial credit spread overlay strategy. As part of this strategy, repurchase agreements are contracted to fund the purchase of provincial bonds and reverse repurchase agreements are contracted to obtain the federal bonds to deliver when selling them short. Such repurchase and reverse repurchase positions are rolled over on a quarterly basis to maintain a synthetic long provincial bond and short federal bond position which delivers the provincial credit spread performance. In order to reduce the cost of funding, federal real return bonds are used as collateral on the repurchase transactions, and as more collateral is required, provincial bonds may be used.

19. Net defined benefit asset or liability (continued)

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

	Registered pension plan		Supplemental pension plans		Other plans	
	2019	2018	2019	2018	2019	2018
Discount rate	3.40%	3.65%	3.40%	3.65%	3.40%	3.65%
Inflation rate	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Rate of salary increase	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Rate of pension increase	2.00%	2.00%	2.00%	2.00%	n/a	n/a

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

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

- > The 2014 Public Sector Mortality Table with mortality improvement Scale CPM-B, from the Canadian Pensioners' Mortality (CPM) study published by the Canadian Institute of Actuaries in February 2014, was used for 2019 and 2018.

As at March 31, 2019, the weighted-average duration of the defined benefit obligation was 18.1 years (2018: 17.7 years).

For measurement purposes, health care cost trends were assumed to be as follows:

Medical (drugs)

- > 5.75% in 2019 reducing by 0.083% each year to 4.0% in 2040
(5.875% in 2018 reducing by 0.125% each year to 4.0% in 2033)

Other medical costs

- > 4.0% per year
(4.0% per year in fiscal 2018)

Dental costs

- > 4.0% per year
(4.0% per year in fiscal 2018)

Weighted-average health care trend

- > 4.89% in 2019 reducing by 0.044% each year to 3.96% in 2040
(4.8% in 2018 reducing by 0.06% each year to 3.9% in 2033)

19. Net defined benefit asset or liability (continued)

Sensitivity of assumptions

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

Increase (decrease) of the present value of the defined benefit obligation	March 31, 2019			March 31, 2018		
	Registered pension plan	Supplemental pension plans	Other plans	Registered pension plan	Supplemental pension plans	Other plans
Discount rate						
Impact of: 1% increase	(247,155)	(22,859)	(31,120)	(220,168)	(20,399)	(27,863)
1% decrease	329,098	29,207	40,390	293,196	27,172	36,017
Rate of salary increase						
Impact of: 1% increase	39,304	12,178	555	35,060	12,108	622
1% decrease	(38,713)	(8,179)	(524)	(34,843)	(7,483)	(586)
Rate of price inflation						
Impact of: 1% increase	297,944	21,678	1,020	267,202	20,446	1,051
1% decrease	(230,811)	(17,723)	(879)	(206,590)	(15,864)	(915)
Rate of pension increase						
Impact of: 1% increase	244,753	27,298	–	218,059	24,313	–
1% decrease	(195,782)	(20,278)	–	(173,449)	(18,431)	–
Health care cost trend						
Impact of: 1% increase	–	–	32,035	–	–	28,341
1% decrease	–	–	(25,308)	–	–	(22,450)
Post-retirement mortality						
Impact of: 1 year older	(44,077)	(5,218)	(6,689)	(35,665)	(3,877)	(5,860)
1 year younger	43,946	4,402	6,857	35,351	3,858	5,996

20.

Other liabilities

	March 31, 2019	March 31, 2018
Financial instruments, measured at amortized cost		
Deposits from clients	38,590	33,517
Expected credit losses on loan commitments	22,465	–
Other ⁽¹⁾	1,500	1,990
	62,555	35,507
Deferred income	7,047	5,454
Other ⁽¹⁾	6,970	4,105
Total other liabilities	76,572	45,066

(1) All other liabilities are non-current.

21.

Share capital

An unlimited number of common shares, having a par value of \$100 each, is authorized. As at March 31, 2019, there were 26,029,000 common shares outstanding (24,779,000 as at March 31, 2018).

As per BDC's Capital Management and Dividend Policy, on the date of approval of the fiscal 2019 Consolidated Financial Statements, a \$128.4 million dividend was declared based on fiscal 2019 results and a \$69.7 million dividend was paid in fiscal 2019 based on fiscal 2018 results.

In fiscal 2019, 1,250,000 common shares for \$125.0 million were issued by BDC (645,000 for \$64.5 million in 2018).

Reconciliation of the number of common shares issued and outstanding

	2019	2018
As at beginning of the year	24,779,000	24,134,000
Shares issued	1,250,000	645,000
As at end of the year	26,029,000	24,779,000

22.

Capital management

Statutory limitations

As per the BDC Act, the debt-to-equity ratio of BDC may not exceed 12:1. This ratio is defined as the aggregate of borrowings recognized in the Consolidated Statement of Financial Position and contingent liabilities that exist in the form of financial guarantees issued by BDC over equity attributable to BDC's shareholder, which excludes accumulated other comprehensive income (loss). BDC's ratio as at March 31, 2019, was 2.9:1 (3.1:1 as at March 31, 2018).

In addition, the paid-in capital, the contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments) must at no time exceed \$4.5 billion. As at March 31, 2019, these amounts totalled \$2.6 billion (\$2.5 billion as at March 31, 2018).

During 2019 and 2018, BDC met both of these statutory limitations.

Capital adequacy

In fiscal 2017, BDC's Capital Management Framework was formalized in a new Capital Management and Dividend Policy and refined to better align with the Capital and Dividend Policy Framework for Financial Crown Corporations and Basel III requirements. The key principles behind BDC's Capital Management Framework are that:

- > BDC has adequate capital to protect itself against risks that could adversely impact its ability to deliver on its mandate and minimize the risk of recapitalization through a complete economic cycle; and
- > capital in excess of target capital should be returned to the shareholder in the form of dividends.

22. Capital management (continued)

Capital adequacy (continued)

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

Available capital based on BDC's ICAAP is composed of equity attributable to BDC's shareholder and adjustments aligned with industry practices. These adjustments were refined in fiscal 2019 to reflect Basel III requirements.

BDC's ICAAP excludes Venture Capital Incentive Programs (VCIP) as these programs are managed by BDC under a specific capital allocation from the shareholder.

Cleantech Practice is included in BDC's ICAAP. Because Cleantech Practice was designed so that excess capital derived from its activities would not be available for other BDC activities, Cleantech Practice's capital status is reported and monitored separately. It is considered protected capital and Cleantech Practice is excluded from BDC's Internal Capital Ratio. Cleantech Practice's capital status is defined as the difference between the initiative's available capital and the economic capital required to support the risk profile of Cleantech Practice's portfolio.

The following table shows BDC's available capital reconciliation:

	March 31, 2019	March 31, 2018
Equity attributable to BDC's shareholder	7,714,125	6,716,472
Adjustments to available capital		
AOCI on cash flow hedges	(4,622)	(3,285)
Intangible assets, net of accumulated amortization	(38,935)	(38,206)
Net defined benefit asset ⁽¹⁾	(20,483)	-
Adjustments for allowance for credit losses	(3,191)	98,442
Portion of equity attributable to VCIP	(475,789)	(422,867)
Portion of equity attributable to Cleantech Practice	(117,542)	-
Available capital	7,053,563	6,350,556

(1) In fiscal 2019, BDC refined its Capital Management and Dividend Policy to exclude net defined benefit asset from available capital in alignment with industry practice.

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

- > Economic Capital quantifies the capital required to cover credit, operational, strategic and market risks;
- > Stress Testing Reserve serves to absorb the volatility of an economic downturn while maintaining BDC's financial strength; and
- > Venture Capital Reserve is held to account for the need for follow-on investments.

BDC's target capital level also factors in an operating range to mitigate the impact of unplanned capital volatility. It accounts for differences between planned and actual level of activities, as well as volatility in assumptions that are difficult to predict. The operating range allows any excess capital over target capital to be paid as dividends to the shareholder in the following fiscal year, subject to the discretion of the Board of Directors. Refer to Note 21—*Share capital* for information on dividends paid.

BDC's key measure for determining and assessing capital adequacy is its internal capital ratio, which is expressed as the level of available capital over the economic capital required. As set out in BDC's Capital Management and Dividend Policy, different management zones have been established to closely monitor the internal capital ratio through a complete business cycle, which include a risk limit, a tolerance threshold and a targeted level.

23.

Risk management

Governance

Risk is an inherent feature of the financial sector. BDC has strong risk management practices that emphasize risk identification, risk management, transparency and accountability.

Nature and extent of risks arising from financial instruments

BDC is exposed to the following financial risks: credit risk, market risk and liquidity risk. This note provides the definitions of these risks and describes BDC's risk management policies and risk measurements.

Credit risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty in discharging its contractual commitment or obligation to BDC. For the purposes of credit risk management activities, BDC distinguishes between credit risk arising from asset-backed securities issuers, borrowers and investees, and counterparties to Treasury activities.

Asset-backed securities issuers

The ABS portfolio consists of investment-grade senior and subordinated notes issued by way of private placement. ABS are fully backed by security consisting of portfolios of loans and leases on vehicles and equipment, as well as dealer floor plan loans, for which there is no significant concentration risk.

In order to mitigate the credit risk on the underlying asset portfolio, generally, there are structural or credit protections. Also, the notional value of the subordinated notes does not exceed 10% of the senior notes. In addition, securities purchased must be of a certain grade. At time of purchase, senior notes must be, at a minimum, an implied investment grade. The implied rating is calculated by BDC using the same scale as rating agencies. The rating is derived by evaluating the transaction structure and the credit enhancement supporting the securities.

Subsequently, BDC receives portfolio reports that describe the performance of the securities, along with the cash flows associated with the collateral, in order to evaluate the securities. In addition, BDC uses an internal risk rating system to monitor credit risk.

As at March 31, 2019, and March 31, 2018, none of the notes were past due and none had experienced a deterioration in their credit rating. The maximum exposure to credit risk of ABS is limited to the carrying value of the securities. Refer to Note 11—*Asset-backed securities*, for additional information on this portfolio.

BDC is also exposed to credit risk on its ABS commitments. Maximum exposure to credit risk is limited to the committed amount. Refer to Note 11—*Asset-backed securities* for additional information.

23. Risk management (continued)

Credit risk (continued)

Borrowers and investees

BDC uses a number of policies, directives and procedures to manage credit exposures from loans and investments, which include:

- > the use of an internal credit risk rating classification;
- > credit policies, guidelines and directives, communicated to officers whose activities and responsibilities include credit granting and risk assessment, which ensure early recognition of problem accounts and immediate implementation of steps to protect BDC's assets;
- > independent reviews by Internal Audit of credit valuation, risk classification and credit management procedures, which include reporting the results to senior management, the President and Chief Executive Officer, and the Audit Committee;
- > approval of larger transactions by the Board Risk Committee and the Board Investment Committee, based on recommendations made by the Credit Risk Committee;
- > review and assessment by the Clean Technology Special Committee of all risks associated with the initiative;
- > monitoring of portfolio concentrations to protect BDC from being overly concentrated in any one province or industry sector;
- > monitoring to ensure that exposure to a single borrower or associated borrowers, unless approved by the Board of Directors, does not represent more than 10% of the shareholder's equity;
- > an annual review process to ensure appropriate classification of individual credit facilities;
- > the conduct of semi-annual valuations of investments; and
- > a watchlist report recording accounts with evidence of weaknesses, as well as an impaired loan report covering loans that show impairment.

The maximum exposure to credit risk from borrowers and investees is limited to the carrying amount of the loans and subordinate financing investments. Refer to Note 10—*Loans* and Note 12—*Subordinate financing investments* for additional information on loans and investment portfolios.

BDC is also exposed to credit risk on its loan commitments and financial guarantees. Maximum exposure to credit risk is limited to the committed amount or, in the case of financial guarantees, to the maximum amount payable under the guarantees. Refer to Note 10—*Loans* and Note 26—*Guarantees and contingent liabilities* for additional information.

23. Risk management (continued)

Credit risk (continued)

Counterparties to Treasury activities

Credit risk inherent to Treasury activities is the risk that BDC faces through the non-performance of a counterparty and the possible event of its default. For the purpose of BDC's Treasury activities, a distinction is made between credit risk arising from investments held in the liquidity portfolio (issuer risk) and credit risk arising from the use of derivative products (counterparty risk).

The notional amounts of derivative financial instruments held by BDC are not indicative of the credit risk exposure associated with the contracts. The risk of loss is related to the possibility that a counterparty to a transaction will not perform as agreed. In the event of default by a counterparty, the risk to BDC in these transactions would be limited to the prevailing market values of transactions that are in an unrealized gain position and uncollateralized.

BDC limits its exposure to credit risk by dealing only with financial institutions that have credit ratings in accordance with the Treasury Risk Policy. As at March 31, 2019, and March 31, 2018, BDC had no significant concentrations in any individual financial institution.

BDC continually monitors its position and the credit ratings of its counterparties, and seeks to limit its credit exposure with respect to contracts in a favourable position by entering into master netting agreements with counterparties.

Counterparty credit risk exposure	Counterparty ratings			Total
	AA- to AA+	A- to A+	BBB to BBB+	
Gross positive replacement cost	5,337	5,005	-	10,342
Impact of master netting agreements		(1,064)		(1,064)
Replacement cost (after master netting agreements)—March 31, 2019	5,337	3,941	-	9,278
Replacement cost (after master netting agreements)—March 31, 2018	6,386	5,093	630	12,109
Number of counterparties				
March 31, 2019	1	5	-	6
March 31, 2018	1	5	1	7

Lastly, to manage the credit risk arising from an issuer of cash equivalents, the Treasury Risk Management Unit ensures the liquidity portfolio is composed of securities issued or guaranteed by entities that have a minimum credit rating of A.

The following table sets out information about the credit quality of cash and cash equivalents.

Counterparty rating	March 31, 2019	March 31, 2018
Rated AA- to AA+	212,374	124,916
Rated A- to A+	491,606	547,954
Cash and cash equivalents	703,980	672,870

23. Risk management (continued)

Market risk

Market risk is the risk of incurring losses as a result of changes in market factors, such as interest rates, foreign exchange rates, the prices of equities or commodities, or other relevant market factors. Market risk for BDC also arises from volatile unpredictable market events affecting the value of venture capital investments.

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. For BDC, the risk and potential variability in earnings arise primarily when cash flows associated with interest-sensitive assets and liabilities have different repricing dates. A positive interest rate gap exists when interest-sensitive assets exceed interest-sensitive liabilities for a specific maturity or repricing period. A positive gap will result in an increase in net interest income when market interest rates rise, since assets reprice earlier than liabilities. The opposite impact will occur when market interest rates fall. As set out in the Treasury Risk Policy, BDC manages market risk by matching the terms of assets and liabilities. As a result, BDC structured notes are economically hedged, using derivatives, to eliminate market risks (refer to Note 9—*Derivative financial instruments*, for additional information).

To manage the interest rate gap on its interest-sensitive assets and interest-sensitive liabilities, BDC establishes policy guidelines for interest rate gap positions, regularly monitors the Bank's situation and decides future strategies in light of changing market conditions. The objective is to manage the interest rate risk using sound and prudent guidelines. Interest rate risk policies included in the Treasury Risk Policy are approved and reviewed at least annually by the Board of Directors.

Exposure to interest rate risk is controlled by managing the size of the static gap positions between interest-sensitive assets and interest-sensitive liabilities. Gap analysis is supplemented by scenario analysis of the asset liability portfolio structure and by a duration analysis. The interest rate gap is measured daily.

Exposure to interest rate risk is also monitored using a net interest income sensitivity stress test. A parallel and sustainable 200-basis-point shock on the Canadian yield curve is simulated and the impact on net interest income has to be less than 10%. The following table discloses the 12-month net interest income sensitivity stress test:

	March 31, 2019		March 31, 2018	
	200 basis points in interest rate		200 basis points in interest rate	
	Increase	Decrease	Increase	Decrease
Net interest income sensitivity	5,600	(5,600)	9,230	(9,230)
Net interest income sensitivity (%)	0.47	(0.47)	0.76	(0.76)

23. Risk management (continued)

Market risk (continued)

Interest rate risk (continued)

The following tables summarize BDC's interest rate sensitivity position based on the difference between the carrying value of assets and the carrying value of liabilities and equity, grouped by the earlier of contractual repricing or maturity date. This gap analysis is a static measurement of interest rate-sensitive gaps at a specific time. These gaps can change significantly in a short period of time.

	Immediately rate-sensitive	Within 3 months ⁽¹⁾	4 to 12 months	1 to 5 years	Over 5 years	Non-rate- sensitive ⁽²⁾	Allowance and fair value	Total
Assets								
Cash and cash equivalents	54,316	649,664						703,980
Derivative assets		9,667				675		10,342
Loans	17,137,881	852,716	730,334	4,790,337	2,151,417	882,779	(629,242)	25,916,222
Asset-backed securities				194,829	505,514			700,343
Subordinate financing investments	581,321	14,454	58,902	207,991	81,253	256,946	(48,685)	1,152,182
Venture capital investments						1,390,140	637,638	2,027,778
Other						145,607		145,607
	17,773,518	1,526,501	789,236	5,193,157	2,738,184	2,676,147	(40,289)	30,656,454
Liabilities and equity								
Derivative liabilities						5,940		5,940
Short-term notes		20,951,914						20,951,914
Long-term notes				1,246,497	196,153			1,442,650
Other						500,190		500,190
Total equity						7,755,760		7,755,760
	-	20,951,914	-	1,246,497	196,153	8,261,890	-	30,656,454
Total gap position before derivatives								
March 31, 2019	17,773,518	(19,425,413)	789,236	3,946,660	2,542,031	(5,585,743)	(40,289)	-
March 31, 2018	17,325,568	(18,953,882)	656,842	3,839,482	2,193,331	(4,697,069)	(364,272)	-
Total derivative position								
		(126,693)		126,693				-
Total gap position								
March 31, 2019	17,773,518	(19,552,106)	789,236	4,073,353	2,542,031	(5,585,743)	(40,289)	-
Total gap position								
March 31, 2018	17,325,568	(18,895,575)	656,842	4,011,175	1,963,331	(4,697,069)	(364,272)	-

(1) This grouping includes asset-backed securities, short-term notes and long-term notes for which interest rates reset monthly. The short-term notes and long-term notes are used to fund floating-rate assets, the majority of which are categorized as immediately rate sensitive.

(2) Assets, liabilities and equities that are non-rate sensitive have no specific maturity.

Foreign exchange risk

Foreign exchange risk arises when there is a difference between assets and liabilities held in foreign currencies. Foreign exchange risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. BDC's policy and practice are to economically hedge borrowings, subordinate financing investments and loans in foreign currencies so that the residual exposure to foreign exchange risk is not significant. Venture capital investments are hedged following the occurrence of a liquidity event. Refer to Note 9—*Derivative financial instruments*, for more information.

23. Risk management (continued)

Market risk (continued)

Venture capital market risk

Unpredictable financial markets, as well as the presence and appetite of buyers, dictate the timing of venture capital divestitures. This timing, in turn, affects the value of BDC venture capital investments. To manage this risk, BDC uses a rigorous selection process of investments and works closely with its investee companies. BDC also lowers the risk of its venture capital investments by applying conservative valuations when purchasing participation in a company, co-investing with other venture capital investors and monitoring investments regularly.

Management reviews all transactions. Larger investment transactions that exceed delegations residing with management are recommended by management to the Board Investment Committee who, in turn, may recommend onto the Board, as required. Other transactions will be recommended for review by the Board Risk Committee directly by the Chief Risk Officer.

Liquidity risk

Liquidity risk is the risk resulting from the difficulty in converting BDC's assets into cash for the purpose of servicing and refinancing its debt, for the timely disbursement of its committed loans and investments and for payment of its operating expenses and dividends.

The following tables detail contractual maturities of financial liabilities and commitments, and are based on notional amounts, which may differ from carrying values.

	Within 1 year	1 to 5 years	Over 5 years	No fixed maturity	Total
Accounts payable and accrued liabilities	96,387	45,025			141,412
Derivative liabilities ⁽¹⁾	–	–			–
Short-term notes ⁽²⁾	21,095,936				21,095,936
Long-term notes ⁽²⁾	48,189	1,527,858	62,106		1,638,153
Other financial liabilities	40,090				40,090
Commitments					
Loans	3,398,260				3,398,260
Asset-backed securities ⁽³⁾	299,000				299,000
Subordinate financing investments	201,066				201,066
Venture capital investments ⁽⁴⁾				756,465	756,465
Leases	31,308	100,538	201,879		333,725
Total as at March 31, 2019	25,210,236	1,673,421	263,985	756,465	27,904,107

	Within 1 year	1 to 5 years	Over 5 years	No fixed maturity	Total
Accounts payable and accrued liabilities	88,304	39,149			127,453
Derivative liabilities ⁽¹⁾	4,492	27,296			31,788
Short-term notes ⁽²⁾	20,590,691				20,590,691
Long-term notes ⁽²⁾	33,372	208,900	–		242,272
Other financial liabilities	35,507				35,507
Commitments					
Loans	3,087,536				3,087,536
Asset-backed securities ⁽³⁾	403,000				403,000
Subordinate financing investments	108,444				108,444
Venture capital investments ⁽⁴⁾				378,042	378,042
Leases	31,119	91,343	192,475		314,937
Total as at March 31, 2018	24,382,465	366,688	192,475	378,042	25,319,670

(1) Derivative liabilities reflect the interest payments to maturity of derivatives.

(2) Short-term and long-term notes reflect the future payments that will be paid as per the contractual note agreements.

(3) Commitments are presented at the earliest possible liquidity event.

(4) Commitments are mainly related to participation in funds in which BDC legally committed to invest. Timing of investments will vary, depending on funds' investment requirements, and should occur over the next several years.

23. Risk management (continued)

Liquidity risk (continued)

A lack of marketability could make it expensive or even impossible to liquidate the securities held by BDC, which could also compromise the short-term continuity of normal business. To avoid any liquidity-related disruptions, BDC ensures that cash is invested in highly liquid and high-quality securities that can be sold to a wide range of counterparties without incurring a substantial discount.

BDC's liquidity risk management objective is to mitigate this risk by:

- > providing for a minimum level of short-term assets over short-term liabilities to cover commitment, market, systemic and operational risks;
- > minimizing the unproductive cash balance in the cash account; and
- > achieving a return on liquid assets in excess of cost while protecting BDC's capital.

The Treasury Risk Policy establishes risk tolerance parameters, provides delegation of authority to BDC's Treasury Department to transact in approved products and provides limits related to specific measures. The policy governs management, measurement, monitoring and reporting requirements related to liquidity. Paragraph 18(3) of the BDC Act defines the instruments in which BDC may invest its liquidity.

BDC's liquidity management practices and processes reinforce its risk mitigation strategies by assigning prudent liquidity levels, concentration requirements and maturity profile requirements, as outlined below:

- > The minimum liquidity level covers at least the net outflows scheduled for the next five working days. The maximum liquidity level is not to exceed 15 days of net cash outflows.
- > The maturity profile requires 75% of the total liquidity to be invested in securities maturing within 100 days.
- > The concentration profile requires that no more than 50% of the portfolio be invested in securities issued or guaranteed by Canadian provinces.

The cash and cash equivalents received from derivative counterparties to cover credit risk exposure as per the Credit Support Annex of the International Swap and Derivatives Association agreements are not included in the liquidity level and limits. As of March 31, 2019, the carrying amount of these items of collateral was \$1,127 (\$1,089 at March 31, 2018).

The following tables show the results of BDC's liquidity risk management.

Liquidity level (in millions of Canadian dollars)

	Minimum	Actual	Maximum
As at March 31, 2019	147	650	1,194
As at March 31, 2018	258	648	1,482

Maturity and concentration limits		Limits	March 31, 2019	March 31, 2018
Cash and cash equivalents maturing within 100 days	Min 75%		100%	100%
Cash and cash equivalents in Canadian provinces	Max 50%		0%	0%

The Treasury Risk Management Unit identifies, measures and monitors these liquidity limits daily. It reports any deviations from these liquidity limits to the Board of Directors. The Treasury Risk Management Unit determines whether the limits remain valid or whether changes to assumptions and limits are required in light of internal or external developments. This process ensures that close links are maintained between liquidity, market and credit risks.

24.

Additional information on the Consolidated Statement of Income

Additional information on financial instruments

	2019			
	FVTPL and designated at FVTPL	FVOCI	Amortized Cost	Total
Interest income ⁽¹⁾⁽²⁾	98,688	14,456	1,493,725	1,606,869
Interest expense ⁽³⁾	2,199	-	287,294	289,493
Fee and other income	22,663	22	20,629	43,314

(1) Interest income includes \$49,689 for impaired loans in 2019.

(2) The interest income on the financial assets measured at FVOCI and amortized cost are calculated using the effective rate method.

(3) The interest expense on financial liabilities measured at amortized cost is calculated using the effective rate method.

	2018		
	FVTPL	Other financial instrument classification	Total
Interest income ⁽¹⁾	87,038	1,268,033	1,355,071
Interest expense	2,859	140,907	143,766
Fee and other income	27,813	56,799	84,612

(1) Interest income includes \$44,036 for impaired loans in 2018.

	2019				
	FVTPL	Designated as at FVTPL	FVOCI	Amortized cost	Total
Total gains (losses)					
Net realized gains (losses) on investments	37,181	-	-	-	37,181
Net change in unrealized appreciation (depreciation) of investments	225,668	-	-	-	225,668
Net realized foreign exchange gains (losses) of assets	413	-	8	3,778	4,199
Net unrealized foreign exchange gains (losses) on assets	25,305	-	207	13,253	38,765
Net realized foreign exchange gains (losses) on foreign exchange forward contracts	(20,909)	-	-	-	(20,909)
Net unrealized foreign exchange gains (losses) on foreign exchange forward contracts	(4,975)	-	-	-	(4,975)
Net foreign exchange gains (losses)	(166)	-	215	17,031	17,080
Net realized gains (losses) on other financial instruments	2,111	-	-	-	2,111
Net unrealized gains (losses) on other financial instruments	(2,576)	1,640	-	-	(936)
Net gains (losses) on other financial instruments	(465)	1,640	-	-	1,175
	262,218	1,640	215	17,031	281,104

24. Additional information on the Consolidated Statement of Income (continued)

Additional information on financial instruments (continued)

	2018				Total
	FVTPL ⁽¹⁾		Available- for-sale	Loans and receivables	
	Held-for- trading	Designated as at FVTPL			
Total gains (losses)					
Net realized gains (losses) on investments	-	(19,853)	216	-	(19,637)
Net change in unrealized appreciation (depreciation) of investments	-	250,181	-	-	250,181
Net realized foreign exchange gains (losses) of assets	-	(609)	(17)	1,220	594
Net unrealized foreign exchange gains (losses) on assets	-	(14,061)	(101)	(13,915)	(28,077)
Net realized foreign exchange gains (losses) on foreign exchange forward contracts	11,254	-	-	-	11,254
Net unrealized foreign exchange gains (losses) on foreign exchange forward contracts	(781)	-	-	-	(781)
Net foreign exchange gains (losses)	10,473	(14,670)	(118)	(12,695)	(17,010)
Net realized gains (losses) on other financial instruments	949	-	-	-	949
Net unrealized gains (losses) on other financial instruments	(6,481)	6,712	-	-	231
Net gains (losses) on other financial instruments	(5,532)	6,712	-	-	1,180
	4,941	222,370	98	(12,695)	214,714

(1) Fair value through profit or loss.

Other additional information

	2019	2018
Salaries and benefits		
Salaries and other benefits	344,316	332,157
Defined benefit plan expense (Note 19)	65,887	60,000
	410,203	392,157
Other expenses		
Professional and outsourcing fees	61,827	49,460
Computers and software, including amortization and depreciation	36,629	29,467
Communications, advertising and promotion	24,108	24,002
Other	24,574	23,037
	147,138	125,966

25.

Segmented information

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

Venture Capital Incentive Programs combines the former Venture Capital Action Plan (VCAP) segment activities with Venture Capital Catalyst Initiative (VCCI).

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

- > **Financing** provides secured, partially secured and unsecured loans with a focus on small and medium-sized enterprises across Canada. It also purchases investments in asset-backed securities through the Funding Platform for Independent Lenders (F-PIL). These securities are backed by vehicle and equipment loans and leases, as well as dealer floor plan loans.
- > **Advisory Services** provides advisory services, supports high-impact firms, and provides group programs and other services related to business activities.
- > **Growth & Transition Capital** provides subordinate financing by way of flexible debt, with or without convertible features, and equity-type financing.
- > **Venture Capital** provides investments to cover every stage of a technology-based company's development cycle, from seed funding to expansion. BDC also makes indirect investments via venture capital investment funds.
- > **Venture Capital Incentive Programs:** VCAP supports the creation of large private sector-led funds of funds and also assists existing high-performing funds in partnership with institutional investors, corporate strategic investors and interested provinces. VCCI provides late-stage venture capital to support the growth of innovative start-ups.
- > **Cleantech Practice** provides subordinate financing and venture capital investments to promising clean technology firms.

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

Interest expense is allocated to each operating segment based on its business portfolio and the capital attributed to the segment. The attribution of capital to BDC's business segments is maintained in accordance with BDC's ICAAP and is consistently aligned to the economic risks of each specific business segment. Refer to Note 22—*Capital management*, for more information.

25. Segmented information (continued)

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

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

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

	March 31, 2019						
	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice
Interest income	1,606,869	1,510,320	–	94,203	–	–	2,346
Interest expense	289,493	280,963	–	8,530	–	–	–
Net interest income	1,317,376	1,229,357	–	85,673	–	–	2,346
Net realized gains (losses) on investments	37,181	–	–	14,594	22,587	–	–
Revenue from Advisory Services	25,072	–	25,072	–	–	–	–
Fee and other income	43,314	21,089	21	19,642	1,773	281	508
Net revenue (loss)	1,422,943	1,250,446	25,093	119,909	24,360	281	2,854
Provision for credit losses	(179,915)	(179,915)	–	–	–	–	–
Net change in unrealized appreciation (depreciation) of investments	225,668	1,401	–	(4,740)	179,374	55,401	(5,768)
Net foreign exchange gains (losses)	17,080	(6,126)	–	496	22,651	205	(146)
Net gains (losses) on other financial instruments	1,175	1,175	–	–	–	–	–
Income (loss) before operating and administrative expenses	1,486,951	1,066,981	25,093	115,665	226,385	55,887	(3,060)
Salaries and benefits	410,203	298,267	51,400	35,140	21,599	931	2,866
Premises and equipment	44,008	35,286	4,482	2,217	1,708	107	208
Other expenses	147,138	112,156	18,991	4,868	8,931	1,759	433
Operating and administrative expenses	601,349	445,709	74,873	42,225	32,238	2,797	3,507
Net income (loss)	885,602	621,272	(49,780)	73,440	194,147	53,090	(6,567)
Net income (loss) attributable to:							
BDC's shareholder	878,482	621,272	(49,780)	68,896	191,571	53,090	(6,567)
Non-controlling interests	7,120	–	–	4,544	2,576	–	–
Net income (loss)	885,602	621,272	(49,780)	73,440	194,147	53,090	(6,567)
Business segment portfolio as at March 31, 2019							
Loans, net of allowance for credit losses	25,916,222	25,916,222					
Asset-backed securities	700,343	700,343					
Subordinate financing investments	1,152,182	12,081		1,082,280			57,821
Venture capital investments	2,027,778				1,566,227	461,551	
Total portfolio	29,796,525	26,628,646	–	1,082,280	1,566,227	461,551	57,821

25. Segmented information (continued)

	March 31, 2018						
	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Action Plan	Cleantech Practice
Interest income	1,355,071	1,269,399	-	85,616	-	-	56
Interest expense	143,766	138,357	-	5,394	-	-	15
Net interest income	1,211,305	1,131,042	-	80,222	-	-	41
Net realized gains (losses) on investments	(19,637)	227	-	4,094	(23,958)	-	-
Revenue from Advisory Services	19,603	-	19,603	-	-	-	-
Fee and other income	84,612	56,759	175	26,852	512	152	162
Net revenue (loss)	1,295,883	1,188,028	19,778	111,168	(23,446)	152	203
Provision for credit losses	(153,539)	(153,539)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	250,181	210	-	(946)	223,929	26,988	-
Net foreign exchange gains (losses)	(17,010)	(2,948)	-	(83)	(13,877)	(102)	-
Net gains (losses) on other financial instruments	1,180	1,180	-	-	-	-	-
Income (loss) before operating and administrative expenses	1,376,695	1,032,931	19,778	110,139	186,606	27,038	203
Salaries and benefits	392,157	290,957	47,957	32,225	19,241	1,124	653
Premises and equipment	40,309	32,875	3,515	1,984	1,845	68	22
Other expenses	125,966	95,370	19,388	4,756	6,248	105	99
Operating and administrative expenses	558,432	419,202	70,860	38,965	27,334	1,297	774
Net income (loss)	818,263	613,729	(51,082)	71,174	159,272	25,741	(571)
Net income (loss) attributable to:							
BDC's shareholder	775,004	613,729	(51,082)	58,813	128,374	25,741	(571)
Non-controlling interests	43,259	-	-	12,361	30,898	-	-
Net income (loss)	818,263	613,729	(51,082)	71,174	159,272	25,741	(571)
Business segment portfolio as at March 31, 2018							
Loans, net of allowance for credit losses	23,728,191	23,728,191					
Asset-backed securities	472,695	472,695					
Subordinate financing investments	1,052,352	9,784		1,032,716			9,852
Venture capital investments	1,663,627				1,263,111	400,516	
Total portfolio	26,916,865	24,210,670	-	1,032,716	1,263,111	400,516	9,852

26.

Guarantees and contingent liabilities

Financial guarantees

Guarantees

BDC issues “letters of credit, loan guarantees and portfolio guarantees” (guarantees) to support businesses. Those guarantees represent BDC’s obligation to make payments to third parties if clients are unable to meet their contractual commitments. Collateral requirements for guarantees are consistent with BDC collateral requirements for loans. The fee income earned is calculated on a straight-line basis over the life of the instrument and recognized in fee and other income in the Consolidated Statement of Income. The maximum contractual obligation under the guarantees totalled \$38.6 million as at March 31, 2019 (\$45.5 million as at March 31, 2018) and the existing terms expire within 127 months (within 139 months as at March 31, 2018). However, the actual exposure as at March 31, 2019, was \$28.2 million (\$34.4 million as at March 31, 2018).

These financial guarantees were initially recognized at fair value on the date the guarantees were given. The fair value was considered nil, as all guarantees were agreed to on arm’s-length terms and no initial fee was received. In addition, no receivable for the future expected fees was recognized. Subsequent recognition of a liability will only occur when it becomes more likely than not that a client will not meet its contractual commitments. As at March 31, 2019 and March 31, 2018 there were no liabilities recognized in BDC’s Consolidated Statement of Financial Position related to these guarantees.

Indemnification agreements

In the ordinary course of business, BDC enters into many contracts that contain indemnification provisions, such as purchase contracts, employment contracts, service agreements and leasing arrangements. In such contracts, BDC may indemnify counterparties to the contracts for certain aspects of BDC’s past conduct if other parties fail to perform, or if certain events occur, such as changes in laws and regulations (including tax legislation), changes in the financial condition of third parties, infringements and breaches of representations and warranties, undisclosed liabilities, and loss caused by the actions of third parties, or as a result of litigation claims by third parties.

These indemnification obligations vary based upon each contract. In many cases, there are no predetermined amounts or limits included in these contracts, and the occurrence of contingent events that triggers payment under them is difficult to predict. The nature of these indemnification contracts is such that BDC cannot reasonably estimate the maximum potential future amount that may be payable to counterparties. Historically, BDC has not made any significant payments under these indemnities and there were no significant provisions for indemnities as of March 31, 2019, and March 31, 2018.

Contingent liabilities

Various legal proceedings arising from the normal course of business are pending against BDC. Management believes that should BDC be found liable pursuant to one or more of these proceedings, the aggregate liability resulting from such proceedings would not be material.

27.

Commitments

Intangible assets

As at March 31, 2019, and March 31, 2018, there were no significant contractual commitments to acquire systems and software.

Property and equipment

As at March 31, 2019, contractual commitments to acquire property and equipment were \$6,093 (\$4,515 as at March 31, 2018).

Leases

BDC entered into a number of lease agreements to provide office space for its head office and business centres. BDC's future minimum lease payments and cost for services under operating leases related to the rental of premises are approximately as follows.

	March 31, 2019	March 31, 2018
Within 1 year	31,308	31,119
1 to 5 years	100,538	91,343
After 5 years	201,879	192,475
Total	333,725	314,937

During the year, lease payments recognized as an expense amounted to \$30.6 million (\$28.8 million in 2018). This amount consists of minimum lease payments. No significant sublease payments or contingent rent payments were made or received.

28.

Related party transactions

BDC is a Crown corporation that is wholly owned by the Government of Canada and is accountable for its affairs through the Minister of Small Business and Export Promotion. BDC is also related to all Government of Canada-created departments, agencies and Crown corporations. BDC enters into transactions with these entities in the normal course of business, under terms and conditions similar to those that apply to unrelated parties.

The defined benefit plans referred to in Note 19—*Net defined benefit asset or liability*, are also related parties. BDC's transactions with these funds include contributions paid to the plans, which are disclosed in Note 19. BDC has no other transactions or balances related to these defined benefit plans.

28. Related party transactions (continued)

Borrowings with the Minister of Finance

During the reporting periods, BDC has borrowed funds from Her Majesty the Queen in Right of Canada acting through the Minister of Finance. This borrowing is in accordance with the FAA and the BDC Act and is compliant with (i) BDC's borrowing plan, which is approved by the Minister of Finance, and (ii) the Crown Borrowing Program Framework.

The following table shows the transactions and outstanding balances related to the borrowings with the Minister of Finance. Refer to Note 18—*Borrowings*, for additional information on short-term and long-term notes.

	Short-term notes		Long-term notes		Total	
	2019	2018	2019	2018	2019	2018
Balance at beginning of year	20,480,059	18,808,311	–	5,606	20,480,059	18,813,917
Net change in short-term notes	465,000	1,665,000	–	–	465,000	1,665,000
Net changes in accrued interest	5,726	6,748	6,622	(6)	12,348	6,742
Issuance of long-term notes	–	–	1,300,000	–	1,300,000	–
Repayment of long-term notes	–	–	–	(5,600)	–	(5,600)
Balance at end of year	20,950,785	20,480,059	1,306,622	–	22,257,407	20,480,059

During the year, BDC recorded \$299.3 million in interest expense related to these borrowings (\$147.6 million in 2018). In addition, no borrowings with the Minister of Finance were repurchased in 2019 and 2018.

Key management personnel

Key management personnel are defined as those officers having authority and responsibility for planning, directing and controlling the activities of BDC, including members of the Board of Directors. The following table shows the compensation expense of key management personnel.

	2019	2018
Salaries and short-term employee benefits	5,961	6,378
Post-employment benefits	1,496	1,459
Other long-term benefits	1,596	1,232
Total	9,053	9,069

The following loan or investment was approved by BDC's Board of Directors or one of its Committees. A member of the Board of Directors or a BDC officer either owns an interest in, or is a director or officer of, a BDC client. Said board member or BDC officer disclosed his or her interest to the board, was not present when the loan or investment was discussed and, if applicable, did not vote on the resolution to approve the related transaction.

Name of client	Amount of the loan or investment
Futurpreneur	80,000

Subsidiaries and associates

The relationship between BDC and its subsidiaries meets the definition of a related party. All transactions between the Bank and its subsidiaries have been eliminated on consolidation, and as such are not disclosed as related party transactions.

In the normal course of business, BDC provides certain services to associates, including equity-type financing and investments. These transactions meet the definition of related party transactions and are made on terms equivalent to those that prevail in arm's-length transactions. Refer to Note 2—*Basis of preparation*, for more information on associates.



Corporate Governance

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At BDC, we have established a robust and effective corporate governance structure to maintain the confidence and trust of our most important stakeholders: entrepreneurs, employees, the public and our shareholder.

We achieve high standards of governance through a clear understanding of our mandate, well-defined roles, as well as strong leadership and alignment of our corporate governance framework from the board level to the operational level.

BDC's corporate governance framework

Federal statutes and Treasury Board guidelines

The *Business Development Bank of Canada Act* sets out BDC's purpose, powers and mandate. The *Financial Administration Act* sets out the control regime for Crown corporations, including strategic planning and financial accountability. Finally, BDC's by-laws prescribe the rules that govern the functioning of the Bank.

We look to the Treasury Board of Canada Secretariat for guidance on public sector governance practices. BDC meets all of the governance standards recommended by Treasury Board. We also regularly benchmark ourselves against corporate governance and risk management best practices in the financial services sector, and update our corporate governance framework as appropriate.

Board governance

Our board sets BDC's strategic direction and holds senior management accountable for achieving BDC's statutory mandate while respecting its complementary role. Our board's mandate, the Board Code of Conduct and board committees' terms of reference define the board's corporate governance framework, oversight responsibilities, stewardship role and decision-making authority. The board is composed of dedicated, hard-working directors.

Their expertise, integrity and commitment to ethical business conduct allows them to transform principles into action that builds trust among our stakeholders. Together, our directors have the required mix of skills and experience needed to guide management to deliver on BDC's mandate. They bring a diverse range of perspectives that helps us support our clients' goals and aspirations.

The board committees do in-depth work in their areas of responsibility and provide regular reports to the board on the activities and performance of the Bank. The board and its committees regularly assess their effectiveness and directors perform peer-to-peer evaluations. Except for the President and CEO, all board members are independent. The segregated roles and responsibilities of the chairperson of the board and the President and CEO reflect best practices. There is extensive communication and collaboration between board members and senior management. The board and its committees hold in-camera sessions, as needed, with the heads of the oversight functions and with auditors. They also regularly meet in the absence of management.

Risk governance

BDC's core challenge is to carry out its role as a development bank that supports entrepreneurs while prudently managing risk and remaining financially sustainable. The board works closely with management to instill and monitor an appropriate risk culture. BDC continues to refine its risk management framework under the leadership of the Chief Risk Officer who is responsible for the effectiveness of risk management and risk oversight functions.

Transparency and ethics

BDC's directors, executives and employees are committed to the highest standards of business ethics and corporate governance. Our operations and activities are characterized by an open and ethical governance culture. The Board Code of Conduct and the Employee Code of Conduct, Ethics and Values are regularly updated to ensure they provide ethical guidance at all levels of our organization. They are reinforced by governance documents on personal trading, disclosure of wrongdoing, anti-fraud, anti-money laundering and anti-terrorism financing. Robust processes are in place to manage conflicts of interest. Any loan or investment made to a company with respect to which a director or officer has declared an interest is approved by a committee of the board.

Such transactions are disclosed in BDC's Annual Report in compliance with the *BDC Act*. Annually, directors, employees and consultants declare they have read, understood and complied with our codes of conduct.

Government oversight

Each year, Parliament receives an update on BDC's five-year corporate plan, which has been approved by the board, the Treasury Board of Canada Secretariat, and the Minister of Small Business and Export Promotion. Parliament also receives BDC's Annual Report. It contains our Consolidated Financial Statements, which have been audited by both the Auditor General of Canada and an external audit firm.

This year, the Office of the Auditor General of Canada completed a special examination of BDC. The OAG report concluded that BDC's corporate governance is effective. At 10-year intervals, the Minister of Small Business and Export Promotion reviews the provisions and operation of the *BDC Act*, in consultation with the Minister of Finance. The next review is scheduled for 2020.

Highlights of the year

This year, the board oversaw the significant progress of Advisory Services in providing mentoring and advisory services to high-impact firms. The board continued to monitor new trends in financing markets and the successful deployment of the Venture Capital Catalyst Initiative (VCCI). The board also approved BDC's participation in the co-creation of two independent venture capital funds, Framework Venture Partners and Amplitude Ventures, which added more at-scale funds and general partner capacity to the Canadian venture capital ecosystem. It also continued its support for our strategy to enhance awareness of BDC's brand and increase our reach to more entrepreneurs across Canada.

The Board Risk Committee oversaw the completion of the implementation of a robust risk function in response to recommendations from the Office of the Superintendent of Financial Institutions. The Clean Technology Committee oversaw the deployment of \$153 million in investments since the inception of a special \$600-million Clean Tech Initiative to meet the shareholder's objective of supporting entrepreneurs with environmentally impactful businesses.

BDC has made significant progress in its commitment to invest \$1.4 billion in programs for women entrepreneurs. In fiscal 2019, BDC authorized \$564.1 million in loans to majority women-owned businesses. Close to 900 women from across Canada attended our 14 WE Talk Business Bootcamps hosted by BDC that connected women entrepreneurs with the resources they need to grow their businesses.

BDC made progress on the implementation of our priorities. These include the successful deployment of online financing at BDC's Virtual Business Centre, and the deployment of mobile applications that allow account managers to process loans on iPads at client locations. Entrepreneurs also have 24-hour access to the newly created Client Space Portal. From a strategic perspective, BDC continued to focus on innovation, including our digital transformation as well as use of advanced data analytics and artificial intelligence to do more for entrepreneurs.

As part of our efforts to attract and retain talented employees and enhance our collaborative culture, BDC continued the transformation of our workspaces. The Human Resource Committee monitors employee satisfaction closely. Satisfaction remains very strong, which supports BDC's goal of having an engaged and productive workforce to fulfill its mandate.

Governance highlights

During the year, the board continued its focus on risk governance and strategy. A BDC director, Anne Whelan, was appointed to the board of the Bank of Canada and had to resign from our board. Anne provided valuable insight into the challenges faced by small businesses and tirelessly promoted the perspectives of entrepreneurs in Atlantic Canada. We thank Anne for her service. Mike Pedersen, Chairperson of the Board, was very involved, with the shareholder, in the selection process to appoint five directors, which was still ongoing at year-end.

Mike Pedersen completed his first year as BDC's Chairperson of the Board. He used his wealth of experience from the financial services sector to support the Bank's efforts to help Canadian entrepreneurs make their businesses more competitive and expand globally. He continued BDC's practice of holding board meetings across Canada to allow directors to meet entrepreneurs and employees in different regions. Under his leadership, the board continued to oversee BDC's digital transformation to ensure we have the tools to fulfill our mandate of supporting entrepreneurs in an increasingly disruptive financial services industry. Our Chairperson has also emphasized the importance of focusing on BDC's human capital strategy.

Robert H. Pitfield served as Interim Chairperson of the Governance/Nominating Committee until Mike Pedersen was nominated as Chairperson of the committee on May 2, 2018. Vijay Kanwar became a member of the Board Investment Committee on July 24, 2017.

Board mandate

The board is responsible for the following:

- > approving BDC's strategic direction and corporate plan to meet its public policy mandate
- > setting performance targets and monitoring progress
- > approving the risk appetite framework, which includes the risk appetite statement, to ensure BDC is identifying and managing its risks properly
- > ensuring the highest standards of corporate governance and board effectiveness are respected
- > establishing compensation policies and ensuring they are aligned with BDC's risk appetite
- > reviewing and approving management's succession plan, which includes approving appointments to the senior management team
- > setting the President and CEO's performance objectives and evaluating his performance
- > reviewing BDC's financial matters and internal controls
- > overseeing communications and public disclosures
- > overseeing BDC's pension plans, including establishing their funding policies and practices
- > approving financing and investment activities beyond management's authority, and overseeing financial and advisory services
- > ensuring the complementarity of BDC's market approach and activities

1 Committees

Audit Committee

Chairperson	Members
Michael Calyniuk	Vijay Kanwar Nancy M. Laird Claude Mc Master
Number of meetings	
6	

This committee promotes an overall corporate culture of quality financial reporting and ethical behaviour. Its main duties are as follows:

- > review and advise the board on annual and quarterly Consolidated Financial Statements before disclosure in accordance with accounting principles
- > review the integrity, adequacy and effectiveness of the internal control framework, information management systems, and, in particular, controls related to major IT, accounting and financial reporting systems
- > recommend the appointment and removal of, and succession planning for, the Chief Audit Executive
- > oversee the activities and assess the performance of the Chief Audit Executive and the internal audit function
- > give advice and recommendations on the appointments and terms of auditors and special examiners
- > review the scope and terms of engagement of auditors and special examiners who report directly to the committee and are accountable to the board
- > oversee the activities and assess the performance of external auditors
- > oversee the activities of the corporate compliance function, including regulatory compliance, and assess its performance
- > oversee capital management, allocation and adequacy
- > oversee BDC's standards of integrity and conduct, including the process for disclosing wrongdoing and reports from the Ombudsperson
- > review directors' and officers' expenses

Board Risk Committee

Chairperson	Members
Robert H. Pitfield	Michael Calyniuk Claude Mc Master Tracey Scarlett Mary-Alice Vuicic
Number of meetings	
21	

This committee's main duties are as follows:

- > review and recommend to the board the risk management framework
- > oversee the work of the Chief Risk Officer and the risk oversight functions
- > identify and manage BDC's principal financial, business and operational risks, and oversee the Bank's risk culture
- > regularly review the Enterprise Risk Management Policy and other policies concerning key risks, such as credit, market, strategic, reputational, operational and other principal risks
- > review and recommend to the board all strategies related to BDC's material financial offerings
- > approve and assess the effectiveness of BDC's risk appetite statement and monitor compliance with the models and limits contained in it
- > review reports and indicators related to BDC's risk profile regarding enterprise risk management, portfolio risk management, capital management and adequacy, treasury operations risks, and information technology security, including emerging risks and exceptions to the risk appetite statement and policies
- > approve the framework for assessing and approving new business activities, products and services, except those related to venture capital
- > ensure the effectiveness of stress testing procedures, and review reports on BDC's risk profile, stress testing processes, and the stress testing methodology, including review of the internal capital adequacy assessment process
- > periodically review the business continuity plan
- > approve loans and transactions that exceed the delegated authorities of senior management
- > review policies and guidelines related to the delegation of authority for all financial products, except venture capital products

Governance/Nominating Committee

Chairperson Mike Pedersen	Members Sandra Bosela Michael Calyniuk Robert H. Pitfield Mary-Alice Vuicic
Number of meetings 6	

This committee helps the board fulfill its corporate governance oversight responsibilities. Its main duties are as follows:

- > continually review best practices and regulations related to governance in Canada and, if necessary, recommend changes to BDC's approach
- > annually review BDC's corporate governance policies, including the Board Code of Conduct, and the Employee Code of Conduct, Ethics and Values
- > annually assess the board's compliance with these policies
- > monitor procedures established to detect and manage potential conflicts of interest
- > regularly review the mandates, structures and memberships of the board and its committees
- > develop selection criteria for the President and CEO position
- > recommend to the board, for the consideration of the Minister of Small Business and Export Promotion, the reappointment of the chairperson of the board, the President and CEO, and members
- > retain a search firm to identify candidates for the positions of the chairperson of the board, the President and CEO, and members
- > review and annually approve the list of skills directors require
- > develop processes to assess the performance of the board, its committees and its members
- > ensure that comprehensive director orientation and continuous training programs are in place

Human Resources Committee

Chairperson Mary-Alice Vuicic	Members Sandra Bosela Shahir Guindi Brian O'Neil Robert H. Pitfield Tracey Scarlett
Number of meetings 6	

This committee's main duties are as follows:

- > assess the "tone at the top" established by senior management regarding integrity and ethics, and review policies for managing personnel effectively
- > recommend the human resources strategy—including key human resources objectives, plans and workforce requirements—to the board
- > review—and, if appropriate, recommend to the board for approval—any major organizational structure changes, including the President and CEO's and other committees' recommendations for appointments of senior management committee members, the Chief Audit Executive, the Chief Risk Officer and the Ombudsperson
- > assess the President and CEO's objectives, performance, evaluation and benefits
- > review compensation for senior executives
- > review and approve the design of compensation policies, programs and plans
- > approve performance measures and metrics
- > receive and examine actuarial evaluation reports and financial statements related to BDC pension plans, as well as recommend funding contributions
- > ensure there is a valid succession plan in place for all critical positions, including the Chief Risk Officer and Chief Audit Executive
- > assess human resources risks, such as those related to employee attraction, retention, engagement and performance
- > recommend to the board funding and design changes to the pension plans
- > monitor the funded status of the plans
- > recommend the pension plan funds' financial statements to the board
- > advise the board on investment strategies and the asset mix

Board Investment Committee

Chairperson Sandra Bosela	Members Shahir Guindi Vijay Kanwar Nancy M. Laird Brian O'Neil
Number of meetings 23	

This committee's duties are as follows:

- > regularly review the Venture Capital Policy, and other policies and processes for investment activities
- > review and assess all risks associated with investments and the management thereof
- > review all strategies, guardrails and capital allocations for all material investment activities, including venture capital and private equity
- > approve the business plans of the five venture capital internal funds, as well as their investment strategies, capital allocation and guardrails
- > review strategic initiatives aimed at improving the venture capital ecosystem
- > review and recommend delegations of authority
- > monitor portfolio performance
- > approve investments that exceed the delegated authorities of senior management

Clean Technology Special Committee

Chairperson Sandra Bosela	Members Shahir Guindi Nancy M. Laird Brian O'Neil Robert H. Pitfield
Number of meetings 12	

This committee's duties are as follows:

- > review the implementation of the Cleantech Practice.
- > oversee the performance of the Cleantech Practice portfolio
- > approve all transactions until authority is delegated to senior management
- > review and assess all risks associated with the Cleantech Practice, the transactions and the management thereof
- > review quarterly reports on activities, portfolio performance and capital requirements and usage

To see board committees' mandates, please go to www.bdc.ca.

Board and Board Committee Meetings and Attendance

Directors	Board of Directors			Audit Committee		Board Investment Committee		Board Risk Committee		Clean Technology Special Committee		Governance/Nominating Committee		Human Resources Committee		Committee Meetings		
	Attendance	Total	%	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	%
Mike Pedersen ⁽¹⁾	12	12	100%	-	-	-	-	-	-	-	-	6	6	-	-	6	6	100%
Sandra Bosela	11	12	92%	-	-	22	23	-	-	12	12	5	6	5	6	44	47	94%
Michael Calyniuk	12	12	100%	6	6	-	-	21	21	-	-	6	6	-	-	33	33	100%
Michael Denham ⁽²⁾	12	12	100%	-	-	-	-	-	-	-	-	-	-	-	-	N/A	N/A	N/A
Shahir Guindi ⁽³⁾	8	10	80%	-	-	14	16	-	-	10	11	-	-	5	6	29	33	88%
Vijay Kanwar ⁽⁴⁾	8	12	67%	5	6	12	14	4	5	-	-	-	-	-	-	21	25	84%
Nancy M. Laird ⁽⁵⁾	11	11	100%	6	6	23	23	-	-	12	12	-	-	-	-	41	41	100%
Claude Mc Master	12	12	100%	6	6	-	-	20	21	-	-	-	-	-	-	26	27	96%
Brian O'Neil	12	12	100%	-	-	21	23	-	-	12	12	-	-	6	6	39	41	95%
Robert H. Pitfield	11	12	92%	-	-	-	-	18	21	10	12	6	6	6	6	40	45	89%
Tracey Scarlett	10	12	83%	-	-	-	-	17	21	-	-	-	-	5	6	22	27	81%
Mary-Alice Vuicic	12	12	100%	-	-	-	-	18	21	-	-	6	6	6	6	30	33	91%
Anne Whelan ⁽⁶⁾	3	3	100%	2	2	7	7	-	-	-	-	-	-	-	-	9	9	100%

Attendance final summary fiscal 2019

- (1) Mr. Pedersen is the Chairperson of the Board and was appointed as the Chairperson of the Governance/Nominating Committee on May 2, 2018. Although Mr. Pedersen is not a member of any other committees, he attends meetings regularly.
- (2) Mr. Denham is BDC's President and CEO. As President and CEO, Mr. Denham is not a member of any committee; however, he attends meetings regularly.
- (3) Due to potential conflicts of interest, Mr. Guindi recused himself from six Board Investment Committee Meetings and one Board of Directors Meeting. Mr. Guindi was unable to attend the Board of Directors conference call on May 10, 2018 due to a last minute scheduling change. These meetings have been excluded from the statistics listed above.
- (4) Mr. Kanwar became a member of the Board Investment Committee as of July 24, 2018.
- (5) Ms. Laird was unable to attend the Board of Directors conference call on May 10, 2018 due to a last minute scheduling change. This meeting has been excluded from the statistics listed above.
- (6) Ms. Whelan resigned from the BDC Board of Directors as of July 10, 2018. Ms. Whelan was unable to attend the Board of Directors conference call on May 10, 2018, due to a last minute scheduling change. This meeting has been excluded from the statistics listed above.

2 Board of Directors

(March 31, 2019)

<p>Mike Pedersen Chairperson of the Board BDC Toronto, Ontario</p>	<p>Michael Denham President and CEO BDC Montreal, Quebec</p>	<p>Sandra Bosela Co-Head, Managing Director and Global Head Private Equity OPTrust Private Markets Group Toronto, Ontario</p>	<p>Michael Calyniuk President MEC Dynamics Inc. Vancouver, British Columbia</p>	<p>Shahir Guindi Co-Chair Osler, Hoskin & Harcourt LLP Montreal, Quebec</p>
<p>Vijay Kanwar Founder KMH Cardiology and Diagnostic Centres Inc. Founder and President Lambardar Inc. Mississauga, Ontario</p>	<p>Nancy M. Laird Corporate Director Calgary, Alberta</p>	<p>Claude Mc Master President and CEO D-BOX Technologies Inc. Longueuil, Quebec</p>	<p>Brian O'Neil Managing Partner A Faire Aujourd'hui Inc. Toronto, Ontario</p>	<p>Robert H. Pitfield Executive Chairman of the Board TravelEdge Group Toronto, Ontario</p>
<p>Tracey Scarlett Corporate Director Edmonton, Alberta</p>	<p>Mary-Alice Vuicic Chief People Officer Thomson Reuters Toronto, Ontario</p>			

To see BDC's directors' biographies, please go to www.bdc.ca.

3 Senior Management Team

(March 31, 2019)

<p>Michael Denham President and CEO</p>	<p>Stefano Lucarelli Executive Vice President and Chief Financial Officer</p>	<p>Pierre Dubreuil Executive Vice President Financing</p>	<p>Peter Lawler Executive Vice President Advisory Services</p>	<p>Jérôme Nycz Executive Vice President BDC Capital</p>
<p>Christopher Rankin Executive Vice President and Chief Risk Officer</p>	<p>Stéphane Bilodeau Chief Information Officer</p>	<p>Michel Bergeron Chief Strategy Officer</p>	<p>Mary Karamanos Chief Human Resources Officer</p>	<p>Annie Marsolais Chief Marketing Officer</p>
<p>Louise Paradis Chief Legal Officer and Corporate Secretary</p>				

To see BDC's senior management team members' biographies, please go to www.bdc.ca.

Five-Year Operational and Financial Summary

for the years ended March 31 (in thousands of Canadian dollars)

Operational Statistics	2019	2018	2017	2016	2015
Loans					
Committed to clients ⁽¹⁾					
as at March 31					
Amount	30,130,971	27,651,518	25,776,208	23,013,157	21,256,479
Number of clients	47,104	43,989	39,203	34,428	32,213
Acceptances					
Amount	7,201,500	6,811,373	6,620,880	4,800,062	4,711,675
Number	17,202	17,551	16,432	14,434	12,012
Asset-backed securities					
Amount committed to clients ⁽¹⁾					
as at March 31	996,000	880,000	945,000	805,000	630,000
Amount authorized (cancelled) and renewed	90,000	(65,000) ⁽²⁾	140,000	575,000	100,000
Subordinate Financing					
Committed to clients ⁽¹⁾					
as at March 31					
Amount	1,390,040	1,186,167	953,833	816,452	706,866
Number of clients	654	640	594	537	471
Acceptances					
Amount	463,401	456,202	320,527	259,060	231,514
Number	177	200	180	174	177
Venture Capital					
Committed to clients ⁽¹⁾					
as at March 31					
Amount	2,146,605	1,664,163	1,620,363	1,568,480	1,351,713
Number of clients	261	255	261	243	217
Authorizations					
Amount	587,536	188,277	160,812	318,062	300,266
Number	99	67	91	130	104
BDC					
Total committed to clients	34,663,616	31,381,848	29,295,404	26,203,089	23,945,058

(1) Amount committed to clients represents portfolio outstanding and amount undisbursed, at cost.

(2) Amount cancelled includes \$60,000 of authorizations and \$125,000 of cancellations.

(in thousands of Canadian dollars)

Financial Information	2019	2018	2017	2016	2015
Net Income and Comprehensive Income—					
by Business Segments⁽¹⁾					
for the years ended March 31					
Financing	621,272	613,729	450,667	444,879	457,393
Advisory Services	(49,780)	(51,082)	(45,784)	(31,569)	(24,245)
Growth & Transition Capital	73,440	71,174	44,631	53,697	38,525
Venture Capital	194,147	159,272	5,227	67,440	23,268
Venture Capital Incentive Programs	53,090	25,741	10,075	3,284	(4,251)
Cleantech Practice	(6,567)	(571)	-	-	-
Net income	885,602	818,263	464,816	537,731	490,690
Net income attributable to:					
BDC's shareholder	878,482	775,004	465,974	535,448	490,516
Non-controlling interests	7,120	43,259	(1,158)	2,283	174
Net income	885,602	818,263	464,816	537,731	490,690
Other comprehensive income (loss) ⁽²⁾	(67,879)	(40,532)	71,702	(43,653)	(30,247)
Total comprehensive income	817,723	777,731	536,518	494,078	460,443
Total comprehensive income attributable to:					
BDC's shareholder	810,603	734,472	537,676	491,795	460,269
Non-controlling interests	7,120	43,259	(1,158)	2,283	174
Total comprehensive income	817,723	777,731	536,518	494,078	460,443
Financial Position Information					
as at March 31					
Loans, net of allowance for credit losses	25,916,222	23,728,191	21,752,511	19,717,706	18,414,044
Asset-backed securities	700,343	472,695	518,088	509,758	407,731
Subordinate financing investments	1,152,182	1,052,352	860,448	751,404	642,810
Venture Capital investments	2,027,778	1,663,627	1,317,254	1,065,668	757,282
Total assets	30,656,454	27,809,166	25,316,765	22,905,903	21,129,017
Total liabilities	22,900,694	21,049,963	19,377,470	17,556,384	16,349,896
Total equity attributable to:					
BDC's shareholder	7,714,125	6,716,472	5,917,500	5,323,473	4,744,566
Non-controlling interests	41,635	42,731	21,795	26,046	34,554
Total equity	7,755,760	6,759,203	5,939,295	5,349,519	4,779,120

(1) For detailed information on fiscal 2019 and fiscal 2018 segmented information, please also refer to Note 25—*Segmented information* to the Consolidated Financial Statements.

(2) For detailed information on fiscal 2019 and fiscal 2018 Other comprehensive income, please refer to Consolidated Statement of Comprehensive Income (p.58).

Glossary

Acceptance—The point at which the client has agreed to the authorized financing terms and conditions that BDC has offered him or her. Client acceptance follows BDC authorization. (Information on acceptances disclosed in this report is net of cancellations or reductions after client acceptance.)

Allowance for credit losses—Represents management's estimate of expected credit losses as at the Financial Position date. Allowance for credit losses can be on impaired or performing portfolio. The expected credit losses on outstanding loans are recorded on the Financial Position as a deduction from loans and the expected credit losses on loan commitments is recorded in other liabilities.

Allowance on impaired portfolio—Established by the management to measure the expected credit losses on the credit-impaired loan portfolio.

Allowance on performing portfolio—Established by management to measure the expected credit losses on the performing loan portfolio.

Asset-backed securities—Securities created through the securitization of a pool of assets. For example, BDC's securitization contains Canadian AAA-rated term securities backed by loans and leases on vehicles and equipment, as well as dealer floor plan loans.

Authorization—The point at which BDC has completed its due diligence and approved the financing request or venture capital investment. Authorization precedes acceptance. (Information on authorizations disclosed in this report is net of cancellations or reductions after BDC authorization.)

Cross-currency swaps—Agreements to exchange payments in different currencies over pre-determined periods of time.

Debt-to-equity ratio—A measure to ensure BDC operates within its statutory limitations on debts, calculated as the aggregate of borrowings and contingent liabilities over the equity attributable to BDC's shareholder. It also includes preferred shares classified as liabilities, and excludes accumulated other comprehensive income or loss. The statutory limit of BDC's debt-to-equity ratio is 12:1.

Derivative financial instruments—Contracts whose value is "derived" from movements in interest or foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

Direct investments—Investments BDC makes directly in investee companies.

Fair value—The price that knowledgeable, willing parties—under no compulsion to act—would agree to in an arm's-length transaction. Fair value represents management's best estimate of the net worth of an investment at the Financial Position date and may not reflect the ultimate realizable value upon disposal of the investment.

Financing efficiency ratio—A measure of the efficiency with which BDC incurs expenses to generate income on its financing operations. It is calculated as operating and administrative expenses, as a percentage of net income. A lower ratio indicates improved efficiency.

Hedging—A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal banking operations.

Impaired loans—Loans are deemed impaired when the interest or principal of the loan is in arrears for three consecutive months or more or if there is reason to believe that a portion of the principal or interest cannot be collected.

Interest rate swaps—Agreements to exchange streams of interest payments—typically, one at a floating rate and the other at a fixed rate—over a specified period, based on notional principal amounts.

Master netting agreement—A standard bilateral contract that enables trading counterparties to agree to net collateral requirements and, in a close-out situation, settlement amounts related to underlying master trading contracts for sales and purchases of financial instruments. The master netting agreement offsets positive balances of one transaction with negative balances of another.

Net change in unrealized appreciation or depreciation of investments—Amount included in income resulting from movements in the fair value of investments for the period.

Net interest income—The difference between interest revenues generated by interest-bearing portfolios, as well as cash equivalents and securities, and the cost of borrowings to fund these assets.

Net realized gains or losses on investments—Gains realized, net of realized capital losses, upon sale or write-off of investments, excluding the net change in unrealized appreciation or depreciation of venture capital and subordinate financing investments.

Net realized gains or losses on other financial instruments—Amounts that are related to structured notes and their associated derivatives. Realized gains or losses occur when financial instruments are repurchased prior to maturity at a price higher or lower than the original purchase price.

Net unrealized gains or losses on other financial instruments—Amounts that are related to structured notes and their associated derivatives. These represent the amounts included in income resulting from movements in the fair value of financial instruments for the period.

Non-controlling interest—The equity in a subsidiary not attributable, directly or indirectly, to BDC.

Performing portfolio—Loans for which there is reasonable assurance that BDC can collect the principal and interest on time.

Provision for credit losses—A charge to income that represents an amount that management deems adequate to fully provide for impairment in the loan portfolios, given the composition of the loan portfolios, the probability of default on the loans, the economic environment and the allowance for credit losses already established.

Return on common equity (ROE)—Net income, less preferred share dividends, expressed as a percentage of average common equity. It excludes other comprehensive income or loss on post-employment benefits, accumulated other comprehensive income or loss, and non-controlling interest.

Revenue from Advisory Services—Fees from services provided by BDC's national network of consultants to assess, plan and implement management solutions.

Start-up—A business that is being established for the first time. Also included in this category are existing enterprises that have not yet registered 12 consecutive months of sales.

Subordinate financing—A hybrid instrument that brings together some features of both debt financing and equity financing.



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