



2022

Financial Report

First Quarter

June 30, 2021



Executive Summary

Canadian economic outlook

The Canadian economy showed great resilience during the second wave of COVID-19. Despite lockdowns across the country for much of the first quarter of 2021, GDP grew at an annualized rate of 5.6% from the previous quarter. The lifting of some restrictions in March supported activity with 18 of the 20 economic sectors recording positive growth during the month.

However, the third COVID wave that hit Canada during the spring halted the recovery with health restrictions reinstated in all provinces in April and May.

As a result, economic activity declined by 0.5% in April compared to March. This was the first GDP decline in 12 months. As most restrictions were carried over into the following month, GDP continued to decline in May, by 0.3%, bringing the economy to 98.5% of its pre-crisis level.

Employment was also highly impacted by lockdowns during the third wave. A total of 275,000 jobs were lost in April and May. Following the reopening of the Canadian economy, 231,000 were recovered in June and 94,000 in July. Combined, these last two months' employment gains more than offset the losses created by the third wave. The national unemployment rate stood at 7.5% in July, the lowest level recorded since the beginning of the pandemic.

The housing sector contributed the most to the recovery in the first quarter. Residential investment grew by 26.5% year-over-year.

Together, the construction and real estate services account for about 20% of the Canadian economy. While home resale activity remained high in the second quarter, it did slow down somewhat, further hindering the recovery in the quarter. However, tightness of housing supply suggests that new construction, the largest component of residential investment, should remain elevated for some time to come.

Meanwhile, commodity prices have been surging since the beginning of the year. The prices of many commodities, including copper and lumber, eased as supply started to catch up with demand. Oil prices have surpassed their pre-pandemic levels and now hover around US\$70 a barrel.

At the end of April, the Bank of Canada announced it was beginning to taper its quantitative easing program and was advancing rate hike guidance to the second half of 2022, instead of 2023 as initially planned.

High commodity prices and a tone more prone to monetary policy tightening by the Bank of Canada relative to its U.S. counterpart, the Federal Reserve, pushed the loonie to as high as US\$.83. It has stabilized recently around US\$.80, which is still supportive of Canada's exports.

Contrary to Canada, the U.S. economy grew steadily in the second quarter. U.S. vaccination campaigns got a head start on the Canadian effort in the spring. As a result, the U.S. was able to avoid a third wave of COVID-19 and begin to reopen their economy earlier. However, vaccination reached a plateau in the country and the resurgence of cases due to the Delta variant could make things difficult for the U.S. economy in the coming months. Nonetheless, the U.S. is now set to grow at its fastest pace in over 35 years, which should also benefit Canadian businesses.

Vaccination in Canada accelerated through the second quarter. Almost 72% of the Canadian population had received at least one vaccine dose by the beginning of August and nearly two-thirds were fully vaccinated.

Provinces started to move ahead with easing of lockdown measures. The reopening of the economy should lead to robust growth in the third quarter, likely propelling Canada's GDP to its pre-crisis level. Business optimism has been rising and investment intentions are improving.

All in all, the Canadian economy is expected to grow by 6% this year. This will be driven by an increase in consumption during the summer, a surge in residential and business investment, strong commodity prices and still accommodative monetary and fiscal policies. But uncertainty about the virus remains and a potential fourth wave in the fall represents a risk to this forecast.



Lines of business

The Business Development Bank of Canada (BDC) reports on six business lines: Financing, Advisory Services, Growth & Transition Capital (GTC), Venture Capital (VC), Capital Incentive Programs (CIP) and the Credit Availability Program (CAP).

In the third quarter of fiscal 2021, in order to be better aligned with the delivery of its services, BDC made some minor changes to its reporting structure, which were applied retrospectively. As a result, Growth Equity and Intellectual Property Investments, which were formerly included in the GTC segment, are now reported in the VC segment. Furthermore, Cleantech Practice is now included in the Capital Incentive Programs (CIP) segment, which was previously named the Venture Capital Incentive Programs (VCIP) segment. As a result, the CIP segment now includes Venture Capital Action Plan (VCAP), Venture Capital Catalyst Initiative (VCCI), Cleantech Practice and the Indigenous Growth Fund (IGF), four government-sponsored programs managed by BDC. Refer to Note 11—*Segmented information*, and Note 14—*Comparative information*, of the Consolidated Financial Statements for complete details.

Activities

BDC aims to contribute to a more competitive, prosperous and inclusive Canada, by supporting entrepreneurs in building resilient, growing businesses.

A critical part of our mission as a development bank is to ensure viable SMEs have access to the credit they need in difficult times. During the COVID-19 pandemic, BDC supported thousands of additional entrepreneurs, providing them with urgently needed capital and advice in complement to other government programs, through a variety of relief measures. These measures include the Business Credit Availability Program (BCAP) and the Highly Affected Sectors Credit Availability Program (HASCAP), which are delivered in collaboration with Canadian banks and credit unions, as well as measures delivered directly by BDC. All of these measures have been grouped together and are part of the Credit Availability Program (CAP), to distinguish them from BDC's core activities.

Core results are driven by the activities of the Financing, Advisory Services, Growth and Transition Capital, Venture Capital and Capital Incentive Programs business lines, whereas those of the CAP segment result from government-led initiatives.

Core activities

Financing clients accepted a total of \$2.7 billion in loans for the three-month period ended June 30, 2021, compared to \$0.9 billion for the same period last year. As the economy continued to recover from the impacts of the COVID-19 pandemic, the volume of activities shifted back to Financing from the CAP segment. Financing's loans portfolio¹, excluding CAP loans, stood at \$28.3 billion as at June 30, 2021.

Net contracts signed for Advisory Services increased in the first quarter to \$9.1 million compared to \$2.0 million for the same period last year. Revenues also increased totalling \$7.0 million for the three-month period, 70.7% higher compared to the same period last fiscal. During the first quarter of fiscal 2021, business development was halted due to the pandemic as resources and activities were shifted to support the CAP initiatives. However, as the economy began to rebound, entrepreneurs have started to focus on growth and innovation, leading to the increases in net contracts signed and revenues for the three-month period ending June 30, 2021.

GTC clients accepted \$144.2 million in financing in the first three months, compared to \$39.6 million for the same period last year. The first quarter of fiscal 2021 was marked by lower demand for growth equity and business transition financing as entrepreneurs focused on rebuilding their working capital. As a result, last year's activities during the first quarter of fiscal 2021 were shifted to CAP to meet working capital needs. This year's results show a gradual return to normal activities as CAP GTC's acceptances are nil in the first quarter of fiscal 2022, compared to \$144.5 million for the same period last fiscal.

¹ Net of allowance for expected credit losses.



VC authorizations for the first quarter of fiscal 2022 were strong with investment authorizations totalling \$100.0 million, compared to \$94.7 million for the same period last year. The increase in authorizations was mainly driven by an increase in direct Intellectual Property investments, which increased by \$10.3 million, offset by a decrease in direct Growth Equity investments, which decreased by \$4.7 million.

CIP had \$27.3 million in authorizations in the first quarter of fiscal 2022, compared to \$47.4 million in authorizations for the same period last year. The volume of authorizations were attributable to the Cleantech Practice for both reporting periods. VCAP commitments to date total \$380.3 million out of a total envelope of \$390.0 million, and VCCI commitments to date total \$363.4 million out a total envelope of \$371.0 million. Both envelopes were fully committed in fiscal 2021.

Credit Availability Program (CAP)

As lockdowns were imposed in the spring of 2020, and continued well into 2021, entrepreneurs were confronted with severe cash-flow difficulties and an urgent need for capital. BDC cushioned the impact of the pandemic by substantially increasing our support for entrepreneurs and modifying our eligibility criteria to address the needs of a greater number of entrepreneurs.

All of our COVID-19 measures are grouped under the Credit Availability Program (CAP) segment, which includes government-led programs, delivered directly by us or in collaboration with Canadian banks and credit unions.

Initiatives delivered directly by BDC

In response to the COVID-19 crisis, BDC launched wide-ranging initiatives, including those related to online loan requests, working capital loans and bridge financing.

For online loans requests, we have broadened our credit threshold and reduced pricing. For qualifying businesses, we have offered working capital loans of up to \$2 million with flexible terms, such as principal payment postponements of six months. These two measures ended on June 30, 2021.

To support Canada's venture capital market, BDC launched a Bridge Financing Program. This is a matching convertible note program to increase VC funding to companies that have suffered significant setbacks related to the pandemic. Under this program, BDC matches up to 100% of the contributions of private investor syndicates that have arranged funding rounds of at least \$250,000 since February 1, 2020.

Initiatives delivered in collaboration with Canadian banks and credit unions

Business Credit Availability Program

The Business Credit Availability Program (BCAP) takes a collaborative approach to supporting the financing needs of entrepreneurs during the pandemic. BDC collaboratively provides support to financially viable Canadian businesses in all sectors and regions. Our efforts, together with a series of other federal government relief measures, were designed to fill market gaps in access to financing for entrepreneurs hit by the pandemic. BCAP includes the Co-Lending and Mid-Market Financing Programs.

For medium-sized businesses whose financing needs exceed loan amounts available through other BCAP and BDC direct measures, the Mid-Market Financing Program provides additional credit to complement businesses' existing debt facilities, working closely with their primary lenders. Part of the program has a particular focus on the oil and gas sector to facilitate support for qualified producers, oilfield service companies and midstream providers. These commercial loans, which take the form of junior loans, range between \$12.5 million and \$60.0 million each. Of the total amount, 90% is provided by BDC and 10% by the company's primary financial institution.

Through the Co-Lending Program, BDC supports the operational cash flow needs of SMEs by co-lending with Canadian banks and credit unions. Under the Co-Lending Program, eligible businesses can obtain incremental credit amounts of up to \$12.5 million, 80% of which is provided by BDC, with the remaining 20% provided by the company's primary financial institution.



Highly Affected Sectors Credit Availability Program

In its Fall Economic Statement 2020, the federal government announced a program to provide additional liquidity to businesses in sectors hardest hit by the COVID-19 pandemic, including tourism, hotels, arts and culture, and the airline industry. Under the Highly Affected Sectors Credit Availability Program (HASCAP), financial institutions will provide loans of up to \$1 million to eligible businesses. The loans will be 100% guaranteed by BDC and carry low interest rates and extended terms of up to 10 years. Under this program, BDC will also issue loans directly to its qualifying clients.

Total loan acceptances and investment authorizations for CAP initiatives, excluding HASCAP guarantees, reached \$211.3 million for the first quarter of fiscal 2022, compared to \$2.2 billion for the same period last year. The carrying amount of CAP's loan and investment portfolio stood at \$3.4 billion as at June 30, 2021.

Financial results overview

The COVID-19 pandemic resulted in significant disruptions to business operations, and an increase in economic uncertainty, adversely impacting global commercial activity and contributing to significant ongoing volatility and declines in the global financial markets. However, the overall economy gradually began to recover during F2021 and into F2022, and as a result, consolidated net income increased.

A consolidated net income of \$825.3 million was recorded for the first quarter of fiscal 2022, consisting of a net income of \$862.1 million for the core business and a net loss of \$36.8 million for CAP. In comparison, BDC reported a net loss of \$139.0 million for the same period last year, consisting of a net income of \$47.6 million for the core business and a net loss of \$186.6 million for CAP. The higher results are mainly attributable to lower provision for expected credit losses due to reversals of the provision in the loans portfolio and higher net fair value appreciation on the investments portfolio.

A \$735.0 million dividend was paid in June 2021 to our sole shareholder, the Government of Canada.



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

BDC is the bank for Canadian entrepreneurs. Its purpose is to support small and mid-sized businesses in all industries and at all stages of growth. Whether business owners want to take on new markets, make their operations more efficient, acquire another business or everything in between, BDC provides access to financing, as well as advisory services to meet their needs. BDC's investment arm, BDC Capital, offers a wide range of risk capital solutions.



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

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



Management Discussion and Analysis

Context of the Quarterly Financial Report

Management's Discussion and Analysis outlines the significant activities and initiatives, risks and financial results of the Business Development Bank of Canada (BDC) for the three months ended June 30, 2021. This analysis should be read in conjunction with BDC's unaudited condensed quarterly Consolidated Financial Statements included in this report, which have been prepared in accordance with the Standard on Quarterly Financial Reports for Crown Corporations, as required by section 131.1 of the *Financial Administration Act*. This analysis should also be read in conjunction with BDC's 2021 Annual Report. At the time of publishing this quarterly report, BDC's 2021 Annual Report has not been tabled in Parliament. Until that time, BDC is not in a position to provide the Management Discussion and Analysis for the year ended March 31, 2021.

There is no requirement for an audit or review of the financial statements included in the quarterly financial report. Therefore, the condensed quarterly Consolidated Financial Statements included in this report have not been audited or reviewed by an external auditor.

Risk Management

In order to fulfill its mandate while ensuring sustainability, BDC must take and manage risk. BDC's approach to risk management is based on establishing a risk governance structure, including organizational design, policies, processes and controls, to effectively manage risk in line with its risk appetite. This structure enables the establishment of a comprehensive risk management framework for risk identification, assessment and measurement, risk analytics, reporting, and monitoring. In addition, this framework is designed to ensure that risk is considered in all business activities and that risk management is an integral part of day-to-day decision-making, as well as the annual corporate planning process.

The primary means through which the risk management function reports risk is through its quarterly Integrated Risk Management (IRM) report to senior management and the Board of Directors. This report provides a comprehensive quantitative and qualitative assessment of performance against the Risk Appetite Statement, profiles BDC's major risk categories, identifies significant existing and emerging risks, and provides in-depth portfolio monitoring.

The COVID-19 pandemic has negatively impacted the economic environment, creating economic uncertainty and hardship for numerous SMEs. Given BDC's mandate and role as a development bank, BDC has put in place a number of programs to support companies during this difficult time and has seen a significant increase in demand for BDC's financing and support programs. These programs, which BDC implemented at the request of the Government, deploy additional liquidity to support Canadian businesses and entrepreneurs who have been negatively impacted by the COVID-19 pandemic.



Analysis of Financial Results

Analysis of financial results is provided to enable a reader to assess BDC's results of operations and financial condition for the three-month period ended June 30, 2021, compared to the corresponding period of the prior fiscal year.

BDC currently reports on six business segments: Financing, Advisory Services, Growth & Transition Capital (GTC), Venture Capital (VC), Capital Incentive Programs (CIP) and the Credit Availability Program (CAP), a new segment created in fiscal 2021 to consolidate government-led initiatives including COVID-19 measures.

All amounts are in Canadian dollars, unless otherwise specified, and are based on unaudited condensed quarterly Consolidated Financial Statements prepared in compliance with the Standard on Quarterly Financial Reports for Crown Corporations, as required by the *Financial Administration Act* and issued by the Treasury Board of Canada Secretariat.

Consolidated net income (loss)

| (\$ in millions) | Three months ended June 30 | |
|---|-------------------------------|----------------|
| | F2022 | F2021 |
| Financing | 419.4 | (79.0) |
| Advisory Services | (9.8) | (7.2) |
| Growth & Transition Capital | 13.7 | 9.5 |
| Venture Capital | 234.0 | 70.7 |
| Capital Incentive Programs | 204.8 | 53.6 |
| Core net income | 862.1 | 47.6 |
| Credit Availability Program | (36.8) | (186.6) |
| Net income (loss) | 825.3 | (139.0) |
| Net income (loss) attributable to: | | |
| BDC's shareholder | 825.7 | (140.9) |
| Non-controlling interests | (0.4) | 1.9 |
| Net income (loss) | 825.3 | (139.0) |

Three months ended June 30

For the first quarter of fiscal 2022, BDC generated a consolidated net income of \$825.3 million, comprising \$825.7 million of net income attributable to BDC's shareholder and a net loss of \$0.4 million attributable to non-controlling interests. For the equivalent period last year, the consolidated net loss of \$139.0 million included \$140.9 million of net loss attributable to BDC's shareholder and net income of \$1.9 million attributable to non-controlling interests. The increase in the first quarter compared to last year was mostly attributable to reversals of provision for expected credit losses in the Financing segment, and higher net fair value appreciation on investments in the Venture Capital and Capital Incentive Programs segments.



Consolidated comprehensive income (loss)

| (\$ in millions) | Three months ended June 30 | |
|--|-------------------------------|---------|
| | F2022 | F2021 |
| Net income (loss) | 825.3 | (139.0) |
| Other comprehensive income (loss) | | |
| Items that may be reclassified subsequently to net income | | |
| Net change in unrealized gains (losses) on FVOCI assets | (2.8) | 9.2 |
| Net change in unrealized gains (losses) on cash flow hedges | (0.3) | (0.3) |
| Total items that may be reclassified subsequently to net income | (3.1) | 8.9 |
| Items that will not be reclassified to net income | | |
| Remeasurements of net defined benefit asset or liability | 18.5 | (401.9) |
| Other comprehensive income (loss) | 15.4 | (393.0) |
| Total comprehensive income (loss) | 840.7 | (532.0) |
| Total comprehensive income (loss) attributable to: | | |
| BDC's shareholder | 841.1 | (533.9) |
| Non-controlling interests | (0.4) | 1.9 |
| Total comprehensive income (loss) | 840.7 | (532.0) |

Three months ended June 30

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

BDC recorded a consolidated other comprehensive income (OCI) of \$15.4 million for the first quarter ended June 30, 2021, compared to an other comprehensive loss of \$393.0 million for the same period last year. The increase in consolidated other comprehensive income for the first quarter of fiscal 2022 was mainly attributable to a remeasurement gain of \$18.5 million on the net defined benefit asset or liability. This gain was due to higher than forecasted returns on pension plan assets, offset by lower discount rates used to value the net defined benefit liability.



Financing results

| (\$ in millions) | Three months ended June 30 | |
|--|-------------------------------|---------------|
| | F2022 | F2021 |
| Net interest income | 344.7 | 334.0 |
| Fee and other income | 6.4 | 5.4 |
| Provision for expected credit losses | 179.0 | (331.6) |
| Net change in unrealized appreciation (depreciation) of investments | (0.2) | (0.6) |
| Net foreign exchange gains (losses) | (1.8) | (0.4) |
| Net gains (losses) on other financial instruments | 0.4 | 0.3 |
| Income before operating and administrative expenses | 528.5 | 7.1 |
| Operating and administrative expenses | 109.1 | 86.1 |
| Net income (loss) from Financing | 419.4 | (79.0) |

| As % of average portfolio | Three months ended June 30 | |
|--|-------------------------------|--------------|
| | F2022 | F2021 |
| Net interest income | 4.6 | 4.5 |
| Fee and other income | 0.1 | 0.1 |
| Provision for expected credit losses | 2.4 | (4.5) |
| Income before operating and administrative expenses | 7.1 | 0.1 |
| Operating and administrative expenses | 1.4 | 1.2 |
| Net income (loss) from Financing | 5.7 | (1.1) |

Three months ended June 30

Net income from Financing was \$419.4 million for the first quarter of fiscal 2022, compared to a net loss of \$79.0 million for the same period last year. The increase in profitability in the first quarter of fiscal 2022 was mainly due to the reversal of provision for expected credit losses.

Operating and administrative expenses for the quarter ended June 30, 2021 were \$109.1 million, higher than the \$86.1 million in the corresponding period last year. The increase in operating and administrative expenses was mainly due to lower expenses recharged to the CAP segment as the level of resources assigned to this segment decreased as the economy continued to recover.



Advisory Services results

| (\$ in millions) | Three months ended June 30 | |
|--|-------------------------------|--------------|
| | F2022 | F2021 |
| Revenue | 7.0 | 4.1 |
| Delivery expenses ⁽¹⁾ | 3.9 | 2.5 |
| Gross operating margin | 3.1 | 1.6 |
| Operating and administrative expenses | 12.9 | 8.8 |
| Net loss from Advisory Services | (9.8) | (7.2) |

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

Three months ended June 30

A net loss of \$9.8 million was recorded for the first quarter of fiscal 2022, compared to a \$7.2 million net loss recorded for the same quarter last year. The \$2.6 million unfavourable variance was driven by higher operating and administrative expenses. This was offset by higher gross operating margin mainly resulting from higher revenues.

Revenues amounted to \$7.0 million for the first quarter of fiscal 2022, higher than the \$4.1 million recorded last year, due to an increase in demand for advisory services as entrepreneurs began recovering from the impacts of the COVID-19 pandemic.

Operating and administrative expenses of \$12.9 million for the three-month period ended June 30, 2021, were higher than those recorded for the same period of fiscal 2021, mainly due to resources returning to their pre-pandemic roles after having been assigned to support CAP activities during the first quarter of fiscal 2021.



Growth & Transition Capital results

| | Three months ended June 30 | |
|--|-------------------------------|-------|
| (\$ in millions) | F2022 | F2021 |
| Net revenue on investments | 40.2 | 18.9 |
| Net change in unrealized appreciation (depreciation) of investments | (17.4) | (1.4) |
| Net foreign exchange gains (losses) | 0.2 | (0.8) |
| Income before operating and administrative expenses | 23.0 | 16.7 |
| Operating and administrative expenses | 9.3 | 7.2 |
| Net income from Growth & Transition Capital | 13.7 | 9.5 |
| Net income (loss) attributable to: | | |
| BDC's shareholder | 13.8 | 9.6 |
| Non-controlling interests | (0.1) | (0.1) |
| Net income from Growth & Transition Capital | 13.7 | 9.5 |

| | Three months ended June 30 | |
|--|-------------------------------|-------|
| As % of average portfolio | F2022 | F2021 |
| Net revenue on investments | 16.4 | 6.8 |
| Net change in unrealized appreciation (depreciation) of investments | (7.1) | (0.5) |
| Net foreign exchange gains (losses) | 0.1 | (0.3) |
| Income before operating and administrative expenses | 9.4 | 6.0 |
| Operating and administrative expenses | 3.8 | 2.6 |
| Net income from Growth & Transition Capital | 5.6 | 3.4 |
| Net income (loss) attributable to: | | |
| BDC's shareholder | 5.6 | 3.4 |
| Non-controlling interests | - | - |
| Net income from Growth & Transition Capital | 5.6 | 3.4 |



Three months ended June 30

Net income reached \$13.7 million for the first quarter of fiscal 2022, which was \$4.2 million higher compared to the \$9.5 million recorded for the same period last year, mainly due to higher net revenue on investments, offset by higher net change in unrealized depreciation of investments and higher operating and administrative expenses.

GTC recorded a net change in unrealized depreciation on investments of \$17.4 million in the first quarter of fiscal 2022, compared to a net change in unrealized depreciation on investments of \$1.4 million during the same period last year, as detailed below. The \$17.4 million net change in unrealized depreciation on investments for the first quarter of fiscal 2022 was mainly explained by the reversal of net fair value appreciation due to realized income and write-offs of \$13.6 million and net fair value depreciation of \$3.8 million.

| (\$ in millions) | Three months ended June 30 | |
|--|-------------------------------|--------------|
| | F2022 | F2021 |
| Net fair value appreciation (depreciation) | (3.8) | (7.9) |
| Reversal of net fair value depreciation (appreciation) due to realized income and write-offs | (13.6) | 6.5 |
| Net change in unrealized appreciation (depreciation) of investments | (17.4) | (1.4) |

Operating and administrative expenses amounted to \$9.3 million for the three-month period ended June 30, 2021, higher than the \$7.2 million recorded last year. The increase was mainly due to lower expenses recharged to the CAP segment as the level of resources assigned to this segment decreased as the economy continued to recover.

Venture Capital results

| (\$ in millions) | Three months ended June 30 | |
|---|-------------------------------|-------------|
| | F2022 | F2021 |
| Net revenue on investments | 190.8 | 18.8 |
| Net change in unrealized appreciation (depreciation) of investments | 65.7 | 80.9 |
| Net foreign exchange gains (losses) | (12.4) | (20.6) |
| Income before operating and administrative expenses | 244.1 | 79.1 |
| Operating and administrative expenses | 10.1 | 8.4 |
| Net income from Venture Capital | 234.0 | 70.7 |
| Net income (loss) attributable to: | | |
| BDC's shareholder | 234.3 | 68.7 |
| Non-controlling interests | (0.3) | 2.0 |
| Net income from Venture Capital | 234.0 | 70.7 |



Three months ended June 30

During the first quarter of fiscal 2022, VC recorded a net income of \$234.0 million, compared to a net income of \$70.7 million for the same period last year. Results for the first quarter were favourably impacted by higher net revenue on investments from realized gain on sales of investments and lower net foreign exchange losses. This was partially offset by lower net change in unrealized appreciation on investments and higher operating and administrative expenses.

VC recorded a net change in unrealized appreciation of investments of \$65.7 million for the first quarter of fiscal 2022, compared to a net change in unrealized appreciation of \$80.9 million for the same period last year, as detailed below.

| (\$ in millions) | Three months ended June 30 | |
|---|-------------------------------|-------------|
| | F2022 | F2021 |
| Net fair value appreciation (depreciation) | 198.8 | 84.1 |
| Reversal of fair value depreciation (appreciation) on divested investments and write-offs | (133.1) | (3.2) |
| Net change in unrealized appreciation (depreciation) of investments | 65.7 | 80.9 |

In the first quarter of fiscal 2022, net foreign exchange losses on investments of \$12.4 million were recorded due to foreign exchange fluctuations on the portfolio in U.S. dollars compared to net foreign exchange losses on investments of \$20.6 million recorded for the same period last year.

Operating and administrative expenses amounted to \$10.1 million, \$1.7 million higher than those recorded for the same period of fiscal 2021. The increase in operating and administrative expenses was mainly due to lower expenses recharged to the CAP segment.

Capital Incentive Programs results

| (\$ in millions) | Three months ended June 30 | |
|---|-------------------------------|-------------|
| | F2022 | F2021 |
| Net revenue on investments | 2.6 | 2.0 |
| Net change in unrealized appreciation (depreciation) of investments | 204.1 | 53.3 |
| Net foreign exchange gains (losses) | (0.4) | (0.6) |
| Income before operating and administrative expenses | 206.3 | 54.7 |
| Operating and administrative expenses | 1.5 | 1.1 |
| Net income from Capital Incentive Programs | 204.8 | 53.6 |



Three months ended June 30

During the first quarter of fiscal 2022, CIP recorded a net income of \$204.8 million, compared to a net income of \$53.6 million for the same period last year. The strong fiscal 2022 results were driven by a strong net change in unrealized appreciation on investments of \$204.1 million compared to \$53.3 million for the same period last year, which is composed of fair value appreciation on investments.

Operating and administrative expenses of \$1.5 million for the three-month period ended June 30, 2021 were higher than those recorded for the same period of fiscal 2021. The increase was mainly due to lower expenses recharged to the CAP segment as the level of resources assigned to this segment decreased as the economy continued to recover.

Credit Availability Program results

| (\$ in millions) | Three months ended June 30 | |
|--|-------------------------------|----------------|
| | F2022 | F2021 |
| Net interest income | 28.8 | 4.7 |
| Fee and other income | 6.9 | 0.7 |
| Provision for expected credit losses | (61.6) | (139.4) |
| Net gains (losses) on investments | 6.4 | - |
| Net change in unrealized appreciation (depreciation) of investments | (3.9) | - |
| Net foreign exchange gains (losses) | (0.4) | (0.2) |
| Loss before operating and administrative expenses | (23.8) | (134.2) |
| Operating and administrative expenses | 13.0 | 52.4 |
| Net loss from Credit Availability Program | (36.8) | (186.6) |

Three months ended June 30

During the first quarter of fiscal 2022, CAP recorded a net loss of \$36.8 million, compared to a net loss of \$186.6 million for the same period last year. Results for the first quarter of fiscal 2022, were favourably impacted by a lower provision for expected credit losses on loans in the first quarter of fiscal 2022 as compared to the same period of last year, as well as higher net interest income and lower operating and administrative expenses.

Operating and administrative expenses of \$13.0 million for the three months ended June 30, 2021 were lower than the \$52.4 million recorded last year, mostly due to lower recharges from other segments, as the level of resources assigned to the CAP segment decreased significantly as the economy continued to recover.



Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows

As at June 30, 2021, total BDC assets amounted to \$38.3 billion, an increase of \$1.1 billion from March 31, 2021, due to the \$0.1 billion increase in cash and cash equivalents combined with the \$0.6 billion increase in our net loans portfolio and the \$0.4 billion increase in our investments portfolio. On May 19, 2021, BDC received \$385.0 million in cash for the issuance of 3,850,000 common shares, which represents a capital injection in support of the Cleantech Practice and Venture Capital Catalyst Initiative.

At \$31.5 billion, the loans portfolio represented BDC's largest asset (gross portfolio of \$32.8 billion less a \$1.3 billion of allowance for expected credit losses). The gross loans portfolio grew by 1.2% over the quarter ended June 30, 2021, reflecting an increase in the level of activity in the Financing and CAP Financing portfolios.

BDC's investment portfolios, which include the subordinate financing and venture capital investments portfolios, stood at \$4.7 billion, compared to \$4.4 billion as at March 31, 2021. The increase of \$0.3 billion was mainly driven by disbursements and net fair value appreciation for VC and CIP investments. The asset-backed securities portfolio stood at \$844.1 million, compared to \$733.3 million as at March 31, 2021.

As at June 30, 2021, the fair value of derivative assets was \$1.5 million and the fair value of derivative liabilities was \$15.4 million. Net derivative fair value decreased by \$16.5 million since March 31, 2021.

As at June 30, 2021, BDC recorded a net defined benefit liability of \$257.9 million for the registered pension plan and the other plans. This represented a decrease of \$15.3 million, compared to the total net defined benefit liability as at March 31, 2021, primarily as a result of remeasurement gains recorded in the first three months of fiscal 2022. Refer to page 10 of this report for further information on remeasurements of net defined benefit asset or liability.

BDC holds cash and cash equivalents in accordance with its Treasury Risk Policy. BDC liquidities, which ensure funds are available to meet its cash outflows, totalled \$907.8 million as at June 30, 2021, compared to \$800.5 million as at March 31, 2021. BDC's Treasury Risk Policy was amended on May 13, 2020 to raise the maximum liquidity level from 30 days to 90 days to cover for the higher operational and funding risks and ensure the level of liquidity is sufficient in response to major disruptions during the COVID-19 pandemic. On January 1, 2021, the maximum liquidity level returned to its pre-pandemic level of 15 days.

For the three-month period ended June 30, 2021, operating activities used \$170.1 million, mainly to support the growth of the loans portfolio. Cash flows provided by investing activities amounted to \$29.5 million, reflecting net disbursements for subordinate financing and venture capital investments, and asset-backed-securities. Financing activities provided \$247.9 million in cash flow, mainly as a result of issuance of \$385.0 million in common shares, net change of \$600.0 million in borrowings, offset by dividend payment of \$735.0 million.

As at June 30, 2021, BDC funded its portfolios and liquidities with borrowings of \$19.0 billion and total equity of \$18.5 billion. Borrowings comprised \$13.8 billion in short-term notes and \$5.2 billion in long-term notes.

Capital adequacy

BDC's capital management framework is based on its Internal Capital Adequacy Assessment Process (ICAAP). To assess its capital adequacy, BDC monitors its capital status regularly by comparing its available capital to its capital demand. A key measure for assessing the adequacy of BDC's capital status is BDC's internal capital ratio.

BDC's internal capital ratio, excluding CIP and CAP, stood at 115.5% as at June 30, 2021, above its target capital ratio of 110%, compared to 118.7% as at March 31, 2021. The decrease in our internal capital ratio is due to a decrease in available capital, mainly due to the \$735.0 million dividend payment made in June 2021, and an increase in required capital to support the growth of our portfolios. Our regulatory capital ratio is well above the minimum regulatory capital requirements and BDC is well positioned to continue to support Canadians SMEs.



Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)

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Management's Responsibility for Financial Information

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

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

Isabelle Hudon
President and Chief Executive Officer

Stefano Lucarelli, CPA, CA
Chief Financial Officer

Montreal, Canada
August 18, 2021



Consolidated Statement of Financial Position

(unaudited)

| (in thousands of Canadian dollars) | Notes | June 30, 2021 | March 31, 2021 |
|--|-------|-------------------|-------------------|
| ASSETS | | | |
| Cash and cash equivalents | | 907,791 | 800,515 |
| Derivative assets | | 1,464 | 4,895 |
| Loans | | | |
| Loans, gross carrying amount | 6 | 32,826,598 | 32,431,181 |
| Less: allowance for expected credit losses | 6 | (1,312,508) | (1,525,700) |
| Loans, net of allowance for expected credit losses | | 31,514,090 | 30,905,481 |
| Investments | | | |
| Asset-backed securities | 7 | 844,113 | 733,322 |
| Subordinate financing investments | 8 | 1,602,568 | 1,452,966 |
| Venture capital investments | 9 | 3,125,030 | 2,978,568 |
| Total investments | | 5,571,711 | 5,164,856 |
| Property and equipment | | 72,775 | 72,993 |
| Intangible assets | | 38,259 | 39,841 |
| Right-of-use-assets | | 116,024 | 119,038 |
| Net defined benefit asset | | 21,811 | 4,796 |
| Other assets | | 47,150 | 35,702 |
| Total assets | | 38,291,075 | 37,148,117 |
| LIABILITIES AND EQUITY | | | |
| Liabilities | | | |
| Accounts payable and accrued liabilities | | 143,879 | 194,807 |
| Derivative liabilities | | 15,388 | 2,278 |
| Borrowings | | | |
| Short-term notes | | 13,782,432 | 13,336,374 |
| Long-term notes | | 5,196,592 | 5,036,235 |
| Total borrowings | | 18,979,024 | 18,372,609 |
| Lease liabilities | | | |
| Short-term lease liabilities | | 13,898 | 13,328 |
| Long-term lease liabilities | | 117,387 | 119,129 |
| Total lease liabilities | | 131,285 | 132,457 |
| Net defined benefit liability | | 279,673 | 277,981 |
| Other liabilities | | 238,731 | 150,628 |
| Total liabilities | | 19,787,980 | 19,130,760 |
| Equity | | | |
| Share capital | 10 | 11,896,900 | 11,511,900 |
| Contributed surplus | | 27,778 | 27,778 |
| Retained earnings | | 6,560,130 | 6,450,829 |
| Accumulated other comprehensive income | | 10,430 | 13,588 |
| Equity attributable to BDC's shareholder | | 18,495,238 | 18,004,095 |
| Non-controlling interests | | 7,857 | 13,262 |
| Total equity | | 18,503,095 | 18,017,357 |
| Total liabilities and equity | | 38,291,075 | 37,148,117 |

Guarantees (Note 12)

Commitments (Notes 6, 7, 8, and 9)

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



Consolidated Statement of Income (Loss)

(unaudited)

| (in thousands of Canadian dollars) | Three months ended June 30 | |
|---|-------------------------------|------------------|
| | 2021 | 2020 |
| Interest income | 417,840 | 385,150 |
| Interest expense | 23,332 | 26,512 |
| Net interest income | 394,508 | 358,638 |
| Net realized gains (losses) on investments | 211,381 | 12,592 |
| Revenue from Advisory Services | 6,998 | 4,056 |
| Fee and other income | 20,828 | 13,367 |
| Net revenue | 633,715 | 388,653 |
| Provision for expected credit losses | 117,397 | (471,066) |
| Net change in unrealized appreciation (depreciation) of investments | 248,549 | 132,247 |
| Net foreign exchange gains (losses) | (14,791) | (22,577) |
| Net gains (losses) on other financial instruments | 357 | 330 |
| Income before operating and administrative expenses | 985,227 | 27,587 |
| Salaries and benefits | 114,297 | 112,773 |
| Premises and equipment | 9,809 | 9,729 |
| Other expenses | 35,802 | 44,107 |
| Operating and administrative expenses | 159,908 | 166,609 |
| Net income (loss) | 825,319 | (139,022) |
| Net income (loss) attributable to: | | |
| BDC's shareholder | 825,759 | (140,970) |
| Non-controlling interests | (440) | 1,948 |
| Net income (loss) | 825,319 | (139,022) |

The accompanying notes are an integral part of these Consolidated Financial Statements. Note 11 provides additional information on segmented net income.



Consolidated Statement of Comprehensive Income (Loss)

(unaudited)

| (in thousands of Canadian dollars) | Three months ended June 30 | |
|---|-------------------------------|-----------|
| | 2021 | 2020 |
| Net income (loss) | 825,319 | (139,022) |
| Other comprehensive income (loss) | | |
| Items that may be reclassified subsequently to net income | | |
| Net change in unrealized gains (losses) on fair value through other comprehensive income assets | (2,836) | 9,176 |
| Net change in unrealized gains (losses) on cash flow hedges | (322) | (251) |
| Total items that may be reclassified subsequently to net income | (3,158) | 8,925 |
| Items that will not be reclassified to net income | | |
| Remeasurements of net defined benefit asset or liability | 18,542 | (401,878) |
| Other comprehensive income (loss) | 15,384 | (392,953) |
| Total comprehensive income (loss) | 840,703 | (531,975) |
| Total comprehensive income (loss) attributable to: | | |
| BDC's shareholder | 841,143 | (533,923) |
| Non-controlling interests | (440) | 1,948 |
| Total comprehensive income (loss) | 840,703 | (531,975) |

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



Consolidated Statement of Changes in Equity

For the three months ended June 30
(unaudited)

| (in thousands of Canadian dollars) | Share capital | Contributed surplus | Retained earnings | Accumulated other comprehensive income (loss) | | | Equity attributable to BDC's shareholder | Non-controlling interests | Total equity |
|---|---------------|---------------------|-------------------|---|------------------|---------|--|---------------------------|--------------|
| | | | | FVOCI assets ⁽¹⁾ | Cash flow hedges | Total | | | |
| Balance as at March 31, 2021 | 11,511,900 | 27,778 | 6,450,829 | 11,362 | 2,226 | 13,588 | 18,004,095 | 13,262 | 18,017,357 |
| Total comprehensive income (loss) | | | | | | | | | |
| Net income (loss) | | | 825,759 | | | | 825,759 | (440) | 825,319 |
| Other comprehensive income (loss) | | | | | | | | | |
| Net change in unrealized gains (losses) on fair value through other comprehensive income assets | | | | (2,836) | | (2,836) | (2,836) | | (2,836) |
| Net change in unrealized gains (losses) on cash flow hedges | | | | | (322) | (322) | (322) | | (322) |
| Remeasurements of net defined benefit asset or liability | | | 18,542 | | | | 18,542 | | 18,542 |
| Other comprehensive income (loss) | - | - | 18,542 | (2,836) | (322) | (3,158) | 15,384 | - | 15,384 |
| Total comprehensive income (loss) | - | - | 844,301 | (2,836) | (322) | (3,158) | 841,143 | (440) | 840,703 |
| Dividends on common shares | | | (735,000) | | | | (735,000) | | (735,000) |
| Distributions to non-controlling interests | | | | | | | | (4,981) | (4,981) |
| Capital injections from non-controlling interests | | | | | | | | 16 | 16 |
| Issuance of common shares | 385,000 | | | | | | 385,000 | | 385,000 |
| Transactions with owner, recorded directly in equity | 385,000 | - | (735,000) | - | - | - | (350,000) | (4,965) | (354,965) |
| Balance as at June 30, 2021 | 11,896,900 | 27,778 | 6,560,130 | 8,526 | 1,904 | 10,430 | 18,495,238 | 7,857 | 18,503,095 |
| <hr/> | | | | | | | | | |
| (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 |
| | | | | FVOCI assets ⁽¹⁾ | Cash flow hedges | Total | | | |
| Balance as at March 31, 2020 | 4,008,900 | 27,778 | 4,846,219 | 5,266 | 3,497 | 8,763 | 8,891,660 | 11,139 | 8,902,799 |
| Total comprehensive income (loss) | | | | | | | | | |
| Net income (loss) | | | (140,970) | | | | (140,970) | 1,948 | (139,022) |
| Other comprehensive income (loss) | | | | | | | | | |
| Net change in unrealized gains (losses) on fair value through other comprehensive income assets | | | | 9,176 | | 9,176 | 9,176 | | 9,176 |
| Net change in unrealized gains (losses) on cash flow hedges | | | | | (251) | (251) | (251) | | (251) |
| Remeasurements of net defined benefit asset or liability | | | (401,878) | | | | (401,878) | | (401,878) |
| Other comprehensive income (loss) | - | - | (401,878) | 9,176 | (251) | 8,925 | (392,953) | - | (392,953) |
| Total comprehensive income (loss) | - | - | (542,848) | 9,176 | (251) | 8,925 | (533,923) | 1,948 | (531,975) |
| Distributions to non-controlling interests | | | | | | | | (37) | (37) |
| Capital injections from non-controlling interests | | | | | | | | 11 | 11 |
| Issuance of common shares | 7,503,000 | | | | | | 7,503,000 | | 7,503,000 |
| Transactions with owner, recorded directly in equity | 7,503,000 | - | - | - | - | - | 7,503,000 | (26) | 7,502,974 |
| Balance as at June 30, 2020 | 11,511,900 | 27,778 | 4,303,371 | 14,442 | 3,246 | 17,688 | 15,860,737 | 13,061 | 15,873,798 |

(1) Fair value through other comprehensive income assets

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



Consolidated Statement of Cash Flows

(unaudited)

| (in thousands of Canadian dollars) | Three months ended | |
|---|--------------------|--------------------|
| | 2021 | 2020 |
| | June 30 | |
| Operating activities | | |
| Net income (loss) | 825,319 | (139,022) |
| Adjustments to determine net cash flows | | |
| Interest income | (417,840) | (385,150) |
| Interest expense | 22,857 | 25,973 |
| Interest on lease liabilities | 475 | 539 |
| Net realized losses (gains) on investments | (211,380) | (12,592) |
| Provision for expected credit losses | (117,397) | 471,066 |
| Net change in unrealized depreciation (appreciation) of investments | (248,549) | (132,247) |
| Net unrealized foreign exchange losses (gains) | 32,214 | 29,823 |
| Net unrealized losses (gains) on other financial instruments | (35) | (79) |
| Defined benefits funding below (in excess of) amounts expensed | 3,219 | (224) |
| Depreciation of property and equipment, and amortization of intangible assets | 5,804 | 5,169 |
| Depreciation of right-of-use assets | 3,531 | 3,873 |
| Other | 3,726 | (6,902) |
| Interest expense paid | (21,067) | (27,932) |
| Interest income received | 409,238 | 372,480 |
| Changes in operating assets and liabilities | | |
| Net change in loans | (417,994) | (2,006,722) |
| Net change in accounts payable and accrued liabilities | (50,928) | 86,544 |
| Net change in other assets and other liabilities | 8,714 | (24,859) |
| Net cash flows provided (used) by operating activities | (170,093) | (1,740,262) |
| Investing activities | | |
| Disbursements for asset-backed securities | (211,908) | (68,945) |
| Repayments and proceeds on sale of asset-backed securities | 98,134 | 75,258 |
| Disbursements for subordinate financing investments | (103,920) | (93,882) |
| Repayments of subordinate financing investments | 100,140 | 47,662 |
| Disbursements for venture capital investments | (132,198) | (143,153) |
| Proceeds on sale of venture capital investments | 283,244 | 33,571 |
| Acquisition of property and equipment | (2,779) | (2,623) |
| Acquisition of intangible assets | (1,225) | (3,158) |
| Net cash flows provided (used) by investing activities | 29,488 | (155,270) |
| Financing activities | | |
| Net change in short-term notes | 446,000 | (1,902,855) |
| Issue of long-term notes | 260,000 | 495,000 |
| Repayment of long-term notes | (100,000) | - |
| Distributions to non-controlling interests | (4,981) | (37) |
| Capital injections from non-controlling interests | 16 | 11 |
| Issuance of common shares | 385,000 | 7,503,000 |
| Dividends paid on common shares | (735,000) | - |
| Payment of lease liabilities | (3,154) | (2,755) |
| Net cash flows provided (used) by financing activities | 247,881 | 6,092,364 |
| Net increase (decrease) in cash and cash equivalents | 107,276 | 4,196,832 |
| Cash and cash equivalents at beginning of period | 800,515 | 1,821,397 |
| Cash and cash equivalents at end of period | 907,791 | 6,018,229 |

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



Notes to the Consolidated Financial Statements

(unaudited in thousands of Canadian dollars)

1.

BDC general description

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

The objectives of the Business Development Bank of Canada and its subsidiaries (together, BDC) are to promote and assist in the establishment and development of business enterprises in Canada, with a focus on small and medium-sized enterprises, by providing a range of complementary lending, investment and advisory services. BDC offers Canadian companies services tailored to meet their current needs while earning an appropriate return on equity, which is used to further BDC's activities. BDC does not receive appropriations from the Government of Canada.

BDC is accountable for its affairs to Parliament through the Minister of Small Business, Export Promotion and International Trade.

2.

Basis of preparation

Statement of compliance

BDC's condensed quarterly Consolidated Financial Statements are in compliance with the Standard on Quarterly Financial Reports for Crown Corporations, as required by the *Financial Administration Act* and issued by the Treasury Board of Canada Secretariat. They were approved for issue by the Board of Directors on August 18, 2021.

Basis of presentation and measurement

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

- financial assets and financial liabilities measured at fair value through profit or loss (FVTPL), financial assets measured at fair value through other comprehensive income (FVOCI), and derivative financial instruments 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 condensed quarterly Consolidated Financial Statements are presented in Canadian dollars, which is BDC's functional currency as well as the functional currency of its subsidiaries. Unless otherwise specified, the figures presented in the condensed quarterly 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 two investment funds that are considered to be subsidiaries for financial reporting purposes.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



The condensed quarterly Consolidated Financial Statements of BDC comprise the financial statements of the parent entity and the consolidated financial statements of the subsidiaries referred to below as of June 30, 2021 and March 31, 2021. The financial statements of the subsidiaries are prepared using uniform accounting policies and valuation methods for similar transactions.

Subsidiaries

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

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

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

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

| Entity | Principal activity | Country of incorporation and residence | Proportion of ownership and voting power held | Basis of control |
|--------------------------|---|--|---|---|
| BDC Capital Inc. | Holding company structure for investment activities | Canada | 100% | Voting power |
| AlterInvest 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% | Contractual agreements |

Go Capital L.P.

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

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

AlterInvest II Fund L.P.

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

Non-controlling interests

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

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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 condensed quarterly Consolidated Statement of Financial Position at fair value. This treatment is permitted by International Accounting Standard (IAS) 28, *Investments in Associates*, under which an entity that is a venture capital organization or other similar entity that holds investments in an associate may elect to measure these investments at fair value through profit or loss in accordance with IFRS 9, *Financial Instruments*.

3. Significant accounting policies

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

Financial instruments

Recognition, derecognition and measurement of financial instruments

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

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

Financial instruments are recognized and derecognized using settlement date accounting.

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

Classification of financial instruments

Financial assets

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

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

Business model assessment

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

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

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



BDC makes an assessment of the objective of a business model under 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 portfolio 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 that is a debt instrument 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 meets the requirements to be measured at amortized cost or at FVOCI, to be measured as at FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis.

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.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Financial liabilities

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

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

Subsequent measurement of financial instruments

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

Financial instruments classified at amortized cost

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

Financial instruments classified at fair value through profit or loss

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

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

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

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

Financial instruments classified at fair value through other comprehensive income

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

Financial liabilities designated at fair value through profit or loss

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

Cash flow hedges

BDC elected to de-designate the hedging instruments effective on the last day of fiscal 2018. The amounts recognized in other comprehensive income (loss) at March 31, 2018 will be recycled to the Consolidated Statement of Income (Loss) in the

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periods where the hedged items affect net income. Derivatives held for risk management are measured at fair value through profit or loss in the Consolidated Statement of Income (Loss) starting April 1, 2018.

Impairment

An allowance for expected credit losses (ECL) is calculated for the following financial instruments 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;
- Loan guarantees.

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 reasonable and supportable information about past events, current conditions and forecasts of future economic events, which are 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 as the difference between the carrying amount and present value of its estimated future cash flow if the loan is considered credit-impaired.

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

The allowance for ECL is calculated on the disbursed and undisbursed amounts of authorized loans, loan guarantees, 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 and collection efforts are not reasonably expected to result in repayment, 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, either partially or in full, 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.

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Loan modifications

To provide financial relief to our clients affected by the COVID-19 pandemic, BDC offered its clients certain relief programs, such as principal and interest postponement options. These modifications did not result in derecognition events, and therefore, no modification losses have been recorded.

Major types of financial instruments

Cash equivalents

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

Cash equivalents are monitored daily to determine the counterparty credit risk using external credit rating agencies. As at June 30, 2021, and March 31, 2021, cash equivalents are considered to have a low credit risk based on the counterparties' external credit ratings of A to AA. The low credit risk simplification is used and the impairment on cash equivalents is calculated based on 12-month expected credit losses.

Loans

Loans are classified and measured at amortized cost using the effective interest rate method, less allowance for expected credit losses. Loans presented on the Consolidated Statement of Financial Position include accrued interest receivable.³

Allowance for expected credit losses

BDC reviews its loan portfolio on an individual asset basis to assess credit risk using the three-stage IFRS 9 impairment model and recognizes ECLs in the provision for expected credit losses in the Consolidated Statement of Income (Loss) and the allowance for expected credit losses in the Consolidated Statement of Financial Position. When a loan is considered 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 effective interest rate of the loan for fixed-rate loans or (ii) the rate at time of impairment for floating-rate loans.

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

Off-balance sheet items subject to an impairment assessment include loan commitments and loan guarantees. The allowance for expected credit losses related to loan commitments and loan guarantees is included in the other liabilities in the Consolidated Statement of Financial Position.

Changes in the allowance for expected credit losses on loan commitments and loan guarantees as a result of originations, repayments and maturities, changes in risk parameters, remeasurements and modifications are recorded in the provision for expected credit losses in our Consolidated Statement of Income (Loss).

Refer to Note 4— *Significant accounting judgements, estimates and assumptions* for more information regarding the criteria used to determine the amount of the allowance.

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Asset-backed securities

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

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

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

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

ABS credit risk is monitored quarterly using internal credit risk rating methodology. As at June 30, 2021, and March 31, 2021, all of the investment-grade senior notes are considered low credit risk, and therefore the low credit risk simplification is used and the impairment is calculated based on 12-month expected credit losses.

Refer to Note 4— *Significant accounting judgements, estimates and assumptions* for more information regarding the criteria used to determine whether an impairment has occurred.

Subordinate financing and venture capital investments

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

BDC's valuation process for fair value measurement of subordinate financing and venture capital investments was derived from the International Private Equity and Venture Capital Valuation Guidelines. Based on the type of investments being valued, BDC uses (i) market-based methodologies, such as the quoted share price or the price of recent similar investments; (ii) discounted earnings or cash flow approaches; or (iii) liquidation or asset-based methods. These fair values are updated at least twice a year by internal 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. The fair value of fund-of-fund investments is determined using the net assets provided by the administrator or by the general partner, unless there is an indication that fair value differs from the net asset value provided. 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.

Derivatives

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

All BDC derivatives are over-the-counter and are mainly composed of swaps and foreign exchange forwards. The fair value of swaps is determined using pricing models that take into account current market and contractual prices of the underlying instrument, as well as time value, the yield curve, or volatility factors underlying the position and embedded options. The

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

As at June 30, 2021, and March 31, 2021, 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.

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

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

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

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

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

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Revenue from Advisory Services

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

Property and equipment and intangible assets

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

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

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

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

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

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

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:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- 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.

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

Leases

At inception of a contract, BDC assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, BDC assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- BDC has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- BDC has the right to direct the use of the asset. BDC has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

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

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

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

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

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

Short-term leases and leases of low-value assets

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

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Net defined benefit asset or liability

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

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

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

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

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

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

Equity attributable to BDC's shareholder

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

Unrealized gains and losses on financial instruments classified as FVOCI assets are included in AOCI until such time as the financial instruments are derecognized or impaired, at which time these gains or losses are reclassified to net income. Prior to April 1, 2018, unrealized gains and losses on derivative financial instruments designated as hedging instruments were included in AOCI until such time the hedged forecasted cash flows were 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 either the daily or monthly average exchange rates in effect during the year.

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

Segmented information

BDC has the following operating segments, which are based on differences in products and services and government supported initiatives: Financing, Advisory Services, Growth & Transition Capital, Venture Capital, Capital Incentive Programs and Credit Availability Program. Over the course of fiscal 2021, there was a change in the internal reporting structure that impacted the results and portfolios of the operating segments, see Note 14 – *Comparative information* for more detail.

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.

Significant accounting judgements, estimates and assumptions

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

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

The global pandemic related to an outbreak of COVID-19 has cast additional uncertainty on the assumptions used by management in making its judgments and estimates. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is difficult to reliably estimate the length and severity of these developments and the impact on the financial results and condition of BDC in future periods. Given that the full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on the global economy and BDC's business is uncertain and not predictable at this time, there is a higher level of uncertainty with respect to management's judgments and estimates.

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



Allowance for expected credit losses

The allowance for expected credit losses under IFRS 9 represents management's estimate of the losses expected in the loan portfolio, loan commitments and loan guarantees, 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, loan commitments and loan guarantees individually to estimate the provision for expected credit losses. The process requires BDC to make assumptions and judgements by carrying out certain activities, including assessing the impaired status and risk of a loan, loan commitments and loan guarantees, and estimating future cash flows and collateral values.

Impaired loans, loan commitments and loan guarantees, are considered in Stage 3. All other loans, loan commitments and loan guarantees 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, loan commitments and loan guarantees, will move back to Stage 1 and if the loans, loan commitments and loan guarantees, 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, loan commitments and loan guarantees, that are on the watchlist and loans that are 30 days past due. To support our clients who were experiencing financial difficulties resulting from the COVID-19 pandemic, BDC offered certain relief programs. Utilization of these relief programs does not systematically in and of itself trigger a significant increase in credit risk.

Expert credit judgment 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 that 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. Since March 2020, the Coronavirus outbreak evolved rapidly resulting in an economic crisis. Entrepreneurs have been experiencing challenges due to business closures, higher unemployment rates and social distancing. Given the high level of uncertainty that remains since the beginning of the pandemic, significant judgement was made in determining the allowance for expected credit losses. Actual results may differ materially from those recorded on June 30, 2021 and March 31, 2021.

Changes in these assumptions, or the use of other reasonable judgements, can materially affect the allowance level. Refer to Note 6—*Loans*, for more information on the allowance for expected credit losses.

Impairment of assets at fair value through other comprehensive income

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

Fair value of financial instruments

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

The inputs to these models, such as interest rate yield curves, equity prices and currency prices and yields, volatility 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.

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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 5—*Fair value of financial instruments* for additional information on fair value hierarchy levels.

BDC's valuation process considered the impacts of COVID-19 on forecasts, workforce, supply chain, liquidity level and the ability to obtain financing. The process includes management adjustments based on factors such as the competitive landscape, quality, and financial ability of the stakeholders to support the business, specific business fundamentals and the rank of financial instruments.

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.

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.

5.

Fair value of financial instruments

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

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

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

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

| | Fair value measurements using | | | June 30, 2021 Total fair value |
|---|-------------------------------|----------------|------------------|---|
| | Level 1 | Level 2 | Level 3 | |
| Assets | | | | |
| Derivative assets | - | 1,464 | - | 1,464 |
| Asset-backed securities | - | 844,113 | - | 844,113 |
| Subordinate financing investments | 247,373 | - | 1,355,196 | 1,602,569 |
| Venture capital investments | 77,097 | - | 3,047,933 | 3,125,030 |
| | 324,470 | 845,577 | 4,403,129 | 5,573,176 |
| Liabilities | | | | |
| Derivative liabilities | - | 15,388 | - | 15,388 |
| Long-term notes designated as fair value through profit or loss | - | 127,666 | - | 127,666 |
| | - | 143,054 | - | 143,054 |
| | | | | March 31, 2021 |
| | Fair value measurements using | | | Total fair value |
| | Level 1 | Level 2 | Level 3 | |
| Assets | | | | |
| Derivative assets | - | 4,895 | - | 4,895 |
| Asset-backed securities | - | 733,322 | - | 733,322 |
| Subordinate financing investments | 88,764 | - | 1,364,202 | 1,452,966 |
| Venture capital investments | 62,955 | - | 2,915,613 | 2,978,568 |
| | 151,719 | 738,217 | 4,279,815 | 5,169,751 |
| Liabilities | | | | |
| Derivative liabilities | - | 2,278 | - | 2,278 |
| Long-term notes designated as fair value through profit or loss | - | 127,662 | - | 127,662 |
| | - | 129,940 | - | 129,940 |

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

| | Subordinate financing investments | Venture capital investments | Total |
|--|---|-----------------------------------|------------------|
| Fair value as at April 1, 2021 | 1,364,202 | 2,915,613 | 4,279,815 |
| Net realized gains (losses) on investments | 15,423 | 195,279 | 210,702 |
| Net change in unrealized appreciation (depreciation) of investments | (17,516) | 123,996 | 106,480 |
| Net unrealized foreign exchange gains (losses) on investments | - | (15,402) | (15,402) |
| Disbursements for investments | 95,576 | 131,566 | 227,142 |
| Repayments of investments and other | (102,489) | (280,119) | (382,608) |
| Transfers from level 3 to level 1 | - | (23,000) | (23,000) |
| Fair value as at June 30, 2021 | 1,355,196 | 3,047,933 | 4,403,129 |

| | Subordinate financing investments | Venture capital investments | Total |
|--|---|-----------------------------------|-----------|
| Fair value as at April 1, 2020 | 1,233,427 | 1,676,822 | 2,910,249 |
| Net realized gains (losses) on investments | 22,070 | 136,580 | 158,650 |
| Net change in unrealized appreciation (depreciation) of investments | 88,248 | 950,963 | 1,039,211 |
| Net unrealized foreign exchange gains (losses) on investments | - | (69,809) | (69,809) |
| Disbursements for investments | 370,729 | 512,951 | 883,680 |
| Repayments of investments and other | (350,272) | (270,293) | (620,565) |
| Transfers from level 3 to level 1 | - | (21,601) | (21,601) |
| Fair value as at March 31, 2021 | 1,364,202 | 2,915,613 | 4,279,815 |

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6.

Loans

The following tables summarize loans outstanding by contractual maturity date.

| | Within 1 year | 1 to 5 years | Over 5 years | Total gross carrying amount | Allowance for expected credit losses | Total net carrying amount |
|----------------------------------|----------------|------------------|-------------------|-----------------------------|--------------------------------------|---------------------------|
| Performing | 292,766 | 5,887,552 | 25,592,764 | 31,773,082 | (937,360) | 30,835,722 |
| Impaired | 33,410 | 176,322 | 843,784 | 1,053,516 | (375,148) | 678,368 |
| Loans as at June 30, 2021 | 326,176 | 6,063,874 | 26,436,548 | 32,826,598 | (1,312,508) | 31,514,090 |

| | Within 1 year | 1 to 5 years | Over 5 years | Total gross carrying amount | Allowance for expected credit losses | Total net carrying amount |
|-----------------------------------|----------------|------------------|-------------------|-----------------------------|--------------------------------------|---------------------------|
| Performing | 419,926 | 5,669,005 | 25,192,018 | 31,280,949 | (1,111,410) | 30,169,539 |
| Impaired | 28,146 | 189,580 | 932,506 | 1,150,232 | (414,290) | 735,942 |
| Loans as at March 31, 2021 | 448,072 | 5,858,585 | 26,124,524 | 32,431,181 | (1,525,700) | 30,905,481 |

The following table shows the reconciliation of the opening and closing balances of the allowance for expected credit losses.

| | Allowance for expected credit losses | | | |
|--|--------------------------------------|----------------|----------------|------------------|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Balance as at April 1, 2021 | 395,895 | 715,515 | 414,290 | 1,525,700 |
| Provision for expected credit losses | | | | |
| Transfer to Stage 1 ⁽¹⁾ | 90,505 | (89,413) | (1,092) | - |
| Transfer to Stage 2 ⁽¹⁾ | (43,850) | 65,520 | (21,670) | - |
| Transfer to Stage 3 ⁽¹⁾ | (343) | (7,185) | 7,528 | - |
| Net remeasurement of allowance for expected credit losses ⁽²⁾ | (157,648) | (83,391) | 3,927 | (237,112) |
| Financial assets that have been fully repaid | (11,862) | (19,234) | (9,249) | (40,345) |
| New financial assets originated | 69,356 | 13,633 | - | 82,989 |
| Write-offs | - | - | (25,748) | (25,748) |
| Recoveries | - | - | 7,084 | 7,084 |
| Foreign exchange and other movements | 93 | (231) | 78 | (60) |
| Balance as at June 30, 2021 | 342,146 | 595,214 | 375,148 | 1,312,508 |

| | Allowance for expected credit losses | | | |
|--|--------------------------------------|----------------|----------------|------------------|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Balance as at April 1, 2020 | 270,249 | 514,256 | 414,668 | 1,199,173 |
| Provision for expected credit losses | | | | |
| Transfer to Stage 1 ⁽¹⁾ | 264,681 | (264,139) | (542) | - |
| Transfer to Stage 2 ⁽¹⁾ | (293,043) | 325,317 | (32,274) | - |
| Transfer to Stage 3 ⁽¹⁾ | (1,953) | (68,231) | 70,184 | - |
| Net remeasurement of allowance for expected credit losses ⁽²⁾ | (107,430) | 223,485 | 126,439 | 242,494 |
| Financial assets that have been fully repaid | (37,459) | (52,464) | (54,329) | (144,252) |
| New financial assets originated | 328,420 | 72,241 | - | 400,661 |
| Write-offs | - | - | (129,142) | (129,142) |
| Recoveries | - | - | 21,419 | 21,419 |
| Foreign exchange and other movements | (27,570) | (34,950) | (2,133) | (64,653) |
| Balance as at March 31, 2021 | 395,895 | 715,515 | 414,290 | 1,525,700 |

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

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

Notes to the Consolidated Financial Statements

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Concentrations of total loans outstanding and undisbursed commitments

Concentrations of the total loans outstanding and undisbursed amounts of authorized loans, by province and territory and by industry sector, are set out in the tables below.

Undisbursed amounts of authorized loans were \$3,329,701 as at June 30, 2021 (\$1,111,567 at fixed rates; \$2,218,134 at floating rates). The weighted average effective interest rate was 3.91% on loan commitments (3.89% as at March 31, 2021).

| Geographic distribution | June 30, 2021 | | March 31, 2021 | |
|--|-------------------|------------------|-------------------|------------------|
| | Outstanding | Commitments | Outstanding | Commitments |
| Newfoundland and Labrador | 876,097 | 36,322 | 869,334 | 41,447 |
| Prince Edward Island | 88,008 | 4,793 | 75,018 | 7,742 |
| Nova Scotia | 696,714 | 29,062 | 724,909 | 35,060 |
| New Brunswick | 508,089 | 68,110 | 520,292 | 40,245 |
| Quebec | 10,281,343 | 1,132,193 | 10,253,238 | 928,116 |
| Ontario | 9,102,967 | 897,135 | 9,038,576 | 821,886 |
| Manitoba | 902,986 | 94,627 | 861,037 | 81,165 |
| Saskatchewan | 881,766 | 78,263 | 865,988 | 65,576 |
| Alberta | 4,756,473 | 462,954 | 4,666,837 | 498,183 |
| British Columbia | 4,537,006 | 505,391 | 4,363,207 | 528,237 |
| Yukon | 115,405 | 5,060 | 115,611 | 1,155 |
| Northwest Territories and Nunavut | 79,744 | 15,791 | 77,134 | 16,227 |
| Total loans outstanding⁽¹⁾ | 32,826,598 | 3,329,701 | 32,431,181 | 3,065,039 |

| Industry sector | June 30, 2021 | | March 31, 2021 | |
|--|-------------------|------------------|-------------------|------------------|
| | Outstanding | Commitments | Outstanding | Commitments |
| Manufacturing | 7,048,159 | 863,068 | 7,047,791 | 788,282 |
| Wholesale and retail trade | 6,294,679 | 683,067 | 6,221,719 | 570,210 |
| Service industries | 5,060,571 | 473,923 | 4,976,814 | 460,518 |
| Tourism | 3,720,889 | 177,104 | 3,742,182 | 156,433 |
| Commercial properties | 3,307,974 | 206,252 | 3,290,244 | 151,264 |
| Construction | 2,925,533 | 359,306 | 2,843,645 | 356,322 |
| Transportation and storage | 1,993,927 | 199,406 | 1,889,402 | 206,829 |
| Resources | 1,374,469 | 209,246 | 1,340,224 | 231,612 |
| Other | 1,100,397 | 158,329 | 1,079,160 | 143,569 |
| Total loans outstanding⁽¹⁾ | 32,826,598 | 3,329,701 | 32,431,181 | 3,065,039 |

⁽¹⁾ Loans commitments included \$3,237,806 in the Financing segment, and \$91,895 in the Credit Availability Program segment as at June 30, 2021 (\$2,870,540, and \$194,499 respectively, as at March 31, 2021).

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

| | Allowance for expected credit losses on commitments | | | |
|---|---|---------------|----------|---------------|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Balance as at April 1, 2021 | 57,007 | 24,161 | - | 81,168 |
| Provision for expected credit losses | | | | |
| Transfer to Stage 1 ⁽¹⁾ | 4,067 | (4,067) | - | - |
| Transfer to Stage 2 ⁽¹⁾ | (4,519) | 4,519 | - | - |
| Net remeasurement of the allowance for expected credit losses | (11,571) | 1,429 | - | (10,142) |
| Net increase (decrease) in commitments | 4,904 | (10,709) | - | (5,805) |
| Foreign exchange and other movements | (23) | (122) | - | (145) |
| Balance as at June 30, 2021 | 49,865 | 15,211 | - | 65,076 |

| | Allowance for expected credit losses on commitments | | | |
|---|---|----------|---------|----------|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Balance as at April 1, 2020 | 41,778 | 25,281 | - | 67,059 |
| Provision for expected credit losses | | | | |
| Transfer to Stage 1 ⁽¹⁾ | 13,817 | (13,817) | - | - |
| Transfer to Stage 2 ⁽¹⁾ | (35,229) | 35,229 | - | - |
| Net remeasurement of the allowance for expected credit losses | 11,911 | 21,834 | - | 33,745 |
| Net increase (decrease) in commitments | 26,381 | (43,124) | - | (16,743) |
| Foreign exchange and other movements | (1,651) | (1,242) | - | (2,893) |
| Balance as at March 31, 2021 | 57,007 | 24,161 | - | 81,168 |

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

7. Asset-backed securities

The following table summarizes asset-backed securities (“ABS”) by classification of financial instruments. No ABS were impaired as at June 30, 2021 or March 31, 2021. No allowances for expected credit losses were recorded for disbursed and undisbursed ABS at fair value through other comprehensive income as at June 30, 2021 or March 31, 2021.

| | June 30, 2021 | March 31, 2021 |
|--|------------------|-------------------|
| Fair value through other comprehensive income | | |
| Principal amount | 824,431 | 711,884 |
| Cumulative fair value appreciation (depreciation) | 8,527 | 11,362 |
| Carrying value | 832,958 | 723,246 |
| Yield | 1.99% | 2.27% |
| Fair value through profit or loss | | |
| Principal amount | 10,992 | 9,863 |
| Cumulative fair value appreciation (depreciation) | 163 | 213 |
| Carrying value | 11,155 | 10,076 |
| Yield | 6.85% | 7.01% |
| Asset-backed securities | 844,113 | 733,322 |

Committed amounts of authorized asset-backed securities were \$560,264 as at June 30, 2021 (\$624,037 as at March 31, 2021).

Notes to the Consolidated Financial Statements

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8.

Subordinate financing investments

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

| | Within 1 year | 1 to 5 years | Over 5 years | Total cost | Total fair value |
|----------------------|---------------|--------------|--------------|------------|------------------|
| As at June 30, 2021 | 126,588 | 991,337 | 345,404 | 1,463,329 | 1,602,568 |
| As at March 31, 2021 | 150,441 | 974,871 | 320,979 | 1,446,291 | 1,452,966 |

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

Concentrations of subordinate financing investments and commitments

The concentrations of subordinate financing investments and undisbursed amounts of authorized subordinate financing investments, by geographic and industry distribution, are set out in the tables below.

Undisbursed amounts of authorized investments totalled \$231,012 as at June 30, 2021 (\$80,730 at fixed rates; \$150,282 at floating rates). The weighted average effective interest rate was 8.4% on subordinate financing commitments (8.5% as at March 31, 2021), excluding non-interest return.

| Geographic distribution | June 30, 2021 | | | March 31, 2021 | | |
|--|------------------|------------------|----------------|------------------|------------------|----------------|
| | Fair value | Cost | Commitments | Fair value | Cost | Commitments |
| Newfoundland and Labrador | 16,393 | 21,893 | 7,375 | 16,371 | 21,563 | 7,525 |
| Prince Edward Island | 9,264 | 9,895 | - | 9,669 | 10,300 | - |
| Nova Scotia | 153,355 | 28,769 | 2,000 | 46,832 | 27,049 | 4,000 |
| New Brunswick | 15,439 | 15,117 | - | 15,979 | 15,657 | - |
| Quebec | 507,934 | 471,094 | 75,198 | 489,770 | 450,753 | 26,656 |
| Ontario | 490,358 | 497,655 | 106,589 | 464,186 | 503,659 | 37,290 |
| Manitoba | 6,685 | 8,416 | - | 6,801 | 8,532 | - |
| Saskatchewan | 46,259 | 50,213 | 7,100 | 47,842 | 53,696 | 2,100 |
| Alberta | 170,516 | 204,495 | 21,800 | 158,724 | 193,422 | 27,550 |
| British Columbia | 184,501 | 153,842 | 10,950 | 194,661 | 159,453 | 7,750 |
| Yukon | 225 | 224 | - | 225 | 224 | - |
| Northwest Territories and Nunavut | 1,639 | 1,716 | - | 1,906 | 1,983 | - |
| Subordinate financing investments⁽¹⁾ | 1,602,568 | 1,463,329 | 231,012 | 1,452,966 | 1,446,291 | 112,871 |

| Industry sector | June 30, 2021 | | | March 31, 2021 | | |
|--|------------------|------------------|----------------|------------------|------------------|----------------|
| | Fair value | Cost | Commitments | Fair value | Cost | Commitments |
| Manufacturing | 481,059 | 482,781 | 57,751 | 478,654 | 490,121 | 17,723 |
| Service industries | 537,154 | 373,001 | 66,866 | 411,798 | 389,167 | 37,145 |
| Wholesale and retail trade | 186,719 | 173,625 | 17,200 | 190,786 | 177,140 | 10,750 |
| Resources | 139,790 | 154,187 | 31,150 | 128,252 | 142,449 | 26,300 |
| Information industries | 154,176 | 151,592 | 46,495 | 123,367 | 118,257 | 10,603 |
| Construction | 47,631 | 49,628 | 2,650 | 45,822 | 48,163 | 7,650 |
| Transportation and storage | 38,145 | 50,652 | 1,900 | 36,751 | 47,578 | 2,700 |
| Educational services | 9,151 | 9,090 | - | 12,638 | 12,417 | - |
| Tourism | 5,517 | 8,591 | - | 6,288 | 9,980 | - |
| Other | 3,226 | 10,182 | 7,000 | 18,610 | 11,019 | - |
| Subordinate financing investments⁽¹⁾ | 1,602,568 | 1,463,329 | 231,012 | 1,452,966 | 1,446,291 | 112,871 |

⁽¹⁾ Subordinate financing commitments included \$2,569 in the Financing segment, \$153,967 in the Growth & Transition Capital segment, \$40,883 in the Capital Incentive Programs segment, \$30,718 in the Venture Capital segment and \$2,875 in the Credit Availability Program segment as at June 30, 2021 (\$3,455, \$56,251, \$42,783, \$5,557 and \$4,825 respectively, as at March 31, 2021).

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9.

Venture capital investments

BDC maintains a high-risk portfolio of venture capital investments. All venture capital investments, which are held for a longer term, are non-current assets.

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

| Investment type | June 30, 2021 | | | March 31, 2021 | | |
|---|------------------|------------------|----------------|------------------|------------------|----------------|
| | Fair value | Cost | Commitments | Fair value | Cost | Commitments |
| Direct investments | 1,431,622 | 884,305 | 33,599 | 1,397,978 | 851,925 | 49,240 |
| Indirect investments in funds ⁽¹⁾ | 1,693,408 | 998,921 | 835,389 | 1,580,590 | 985,162 | 876,138 |
| Venture capital investments ⁽²⁾ | 3,125,030 | 1,883,226 | 868,988 | 2,978,568 | 1,837,087 | 925,378 |

⁽¹⁾ As at June 30, 2021, BDC has invested in 101 funds through its VC segment and 24 funds through its CIP segment (100 and 24 funds, respectively, as at March 31, 2021).

⁽²⁾ Venture Capital commitments included \$451,225 in the Venture Capital segment, \$407,833 in the Capital Incentive Programs segment, and \$9,930 in the Credit Availability Program segment as at June 30, 2021 (\$473,575, \$432,903, and \$18,900 respectively, as at March 31, 2021)

Concentrations of total venture capital investments and commitments

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

| Industry sector | June 30, 2021 | | | March 31, 2021 | | |
|---------------------------------|------------------|----------------|---------------|------------------|----------------|---------------|
| | Fair value | Cost | Commitments | Fair value | Cost | Commitments |
| Information technology | 853,453 | 422,379 | 14,455 | 835,203 | 418,072 | 23,830 |
| Communications | 151,936 | 110,896 | 6,983 | 141,868 | 100,473 | 10,031 |
| Biotechnology and pharmacology | 82,700 | 97,115 | - | 75,285 | 89,115 | 8,000 |
| Electronics | 63,427 | 58,480 | 7,232 | 63,498 | 58,480 | 4,232 |
| Medical and health | 53,506 | 48,134 | 932 | 58,198 | 45,062 | 250 |
| Industrial | 47,347 | 45,497 | 3,500 | 42,238 | 40,013 | 2,400 |
| Energy | 28,997 | 20,582 | 497 | 29,209 | 20,582 | 497 |
| Other | 150,256 | 81,222 | - | 152,479 | 80,128 | - |
| Total direct investments | 1,431,622 | 884,305 | 33,599 | 1,397,978 | 851,925 | 49,240 |

10.

Share capital

An unlimited number of common shares, having a par value of \$100 each, is authorized. As at June 30, 2021, there were 118,969,000 common shares outstanding (115,119,000 as at March 31, 2021).

On May 19, 2021, BDC issued 3,850,000 common shares for cash proceeds of \$385 million, which represents a capital injection in support of the Cleantech Practice and Venture Capital Catalyst Initiative.

On July 12, 2021, BDC issued 500,000 common shares, which represents a capital injection of \$50 million in support of the Indigenous Growth Fund.

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

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of financial guarantees issued by BDC over equity attributable to BDC's shareholder excluding accumulated other comprehensive income.

Effective October 1, 2020, the Minister of Finance confirmed that the amount of paid-in-capital, together with any contributed surplus and any proceeds that have been prescribed as equity, must not at any time exceed \$20.0 billion per an amendment to the *Business Development Bank of Canada Act, 1995*.

During the three months ended June 30, 2021 and the year ended March 31, 2021, BDC met both of these statutory limitations.

Capital adequacy

BDC's capital management framework is based on its Internal Capital Adequacy Assessment Process (ICAAP). To assess its capital adequacy, BDC monitors its capital status regularly by comparing its available capital to its capital demand. A key measure for assessing the adequacy of BDC's capital status is its internal capital ratio.

On May 5, 2020, the Board of Directors' approved a new capital management framework to ensure effective capital management in alignment with regulatory guidelines (OSFI/Basel) and with other Canadian Financial Institutions. BDC strives to continuously evolve its capital adequacy techniques and measures to better reflect the Bank's inherent risks while integrating industry best practices. The new capital management framework incorporates changes in both the available capital definition as well as in the required capital quantification. The new framework was effective April 1, 2020.

Available capital

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

Required capital

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



11.

Segmented information

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

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

- Financing provides secured, partially secured and unsecured loans with a focus on small and medium-sized enterprises across Canada. It also purchases investments in asset-backed securities through the Funding Platform for Independent Lenders (F-PIL). These securities are backed by vehicle and equipment loans and leases, as well as dealer floor plan loans.
- Advisory Services offer advisory services through a variety of solutions for both smaller and larger companies, supports high-impact firms, provides free online educational content and other services related to business activities.
- Growth & Transition Capital provides subordinate financing by way of flexible debt, with or without convertible features, and equity-type financing to support the growth and transition projects of SMEs.
- Venture Capital includes investments in Venture capital (VC), Growth Equity (GE) and Intellectual Property (IP). Venture capital segment provides investments to cover every stage of a technology-based company's development cycle, from seed funding to expansion. Investments in VC are focused on fast-growing companies having promising positions in their respective marketplaces and strong growth potential. BDC also makes indirect investments via venture capital investment funds. GE are equity investments to support the growth of high-potential companies across Canada. With the first Growth Equity Fund reaching its total capital commitment target of \$250.0 million, BDC will launch a follow-on fund, the Growth Equity Fund II, which will maintain a focus on mid-size business looking and target a broader range of companies. Through its IP Fund, BDC launched a \$160.0 million Fund that provides more targeted financing to companies that are rich in intellectual property. It focusses on such sectors as advanced manufacturing, media and telecom, med-tech and digital health and information technology. Companies will be able to access customized, patient capital that recognizes IP as a core asset that must be valued and protected.
- Capital Incentive Programs (previously 2 separate segments, Venture Capital Incentive Programs and Cleantech Practice): includes Venture Capital Action Plan (VCAP), Venture Capital Catalyst Initiative (VCCI), Cleantech Practice and Indigenous Growth Fund (IGF). VCAP is a \$390.0 million federal government initiative to increase private sector venture capital financing for high-potential, innovative Canadian businesses. VCAP invests primarily in early-stage and mid-stage venture capital funds, and directly in companies across Canada. It supports the creation of large private sector-led funds of funds and also assists existing high-performing funds in partnership with institutional investors, corporate strategic investors and interested provinces. VCCI is also a government-sponsored initiative whereby \$450.0 million is made available through BDC over three years to provide late-stage venture capital to support the growth of innovative start-ups. Through a \$600.0 million envelope entrusted by the federal government, Cleantech Practice provides subordinate financing and venture capital investments to promising clean technology firms to help build globally competitive and commercially sustainable Canadian cleantech firms.
- Credit Availability Program: with the support of our sole shareholder, the Government of Canada, we launched a series of measures to help Canadian businesses during the COVID-19 crisis. These measures are combined under CAP to distinguish government-led initiatives from our core activities. The initiatives extend eligibility criteria to ensure we are meeting the urgent needs of as many viable businesses as possible. They include the Business Credit Availability Program, which is delivered in collaboration with Canadian banks and credit unions, and measures delivered directly by BDC.

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

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

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

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

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

| | Three months ended June 30, 2021 | | | | | | |
|---|-------------------------------------|-------------------|----------------------|-----------------------------------|--------------------|-------------------------------|-----------------------------------|
| | BDC | Financing | Advisory Services | Growth & Transition Capital | Venture Capital | Capital Incentive Programs | Credit Availability Program |
| Interest income | 417,840 | 366,313 | - | 19,999 | 57 | 2,131 | 29,340 |
| Interest expense | 23,332 | 21,566 | - | 1,226 | 1 | - | 539 |
| Net interest income | 394,508 | 344,747 | - | 18,773 | 56 | 2,131 | 28,801 |
| Net realized gains (losses) on investments | 211,381 | (229) | - | 15,428 | 189,582 | 225 | 6,375 |
| Revenue from Advisory Services | 6,998 | - | 6,998 | - | - | - | - |
| Fee and other income | 20,828 | 6,449 | 9 | 5,951 | 1,203 | 260 | 6,956 |
| Net revenue | 633,715 | 350,967 | 7,007 | 40,152 | 190,841 | 2,616 | 42,132 |
| Provision for expected credit losses | 117,397 | 178,997 | - | - | - | - | (61,600) |
| Net change in unrealized appreciation (depreciation) of investments | 248,549 | (50) | - | (17,383) | 65,704 | 204,130 | (3,852) |
| Net foreign exchange gains (losses) | (14,791) | (1,794) | - | 282 | (12,402) | (382) | (495) |
| Net gains (losses) on other financial instruments | 357 | 357 | - | - | - | - | - |
| Income (loss) before operating and administrative expenses | 985,227 | 528,477 | 7,007 | 23,051 | 244,143 | 206,364 | (23,815) |
| Salaries and benefits | 114,297 | 75,468 | 12,222 | 8,001 | 7,427 | 1,114 | 10,065 |
| Premises and equipment | 9,809 | 6,998 | 800 | 440 | 574 | 177 | 820 |
| Other expenses | 35,802 | 26,626 | 3,825 | 886 | 2,142 | 181 | 2,142 |
| Operating and administrative expenses | 159,908 | 109,092 | 16,847 | 9,327 | 10,143 | 1,472 | 13,027 |
| Net income (loss) | 825,319 | 419,385 | (9,840) | 13,724 | 234,000 | 204,892 | (36,842) |
| Net income (loss) attributable to: | | | | | | | |
| BDC's shareholder | 825,759 | 419,385 | (9,840) | 13,779 | 234,385 | 204,892 | (36,842) |
| Non-controlling interests | (440) | - | - | (55) | (385) | - | - |
| Net income (loss) | 825,319 | 419,385 | (9,840) | 13,724 | 234,000 | 204,892 | (36,842) |
| Business segment portfolio as at June 30, 2021 | | | | | | | |
| Loans, net of allowance for expected credit losses | 31,514,090 | 28,327,912 | - | - | - | - | 3,186,178 |
| Asset-backed securities | 844,113 | 844,113 | - | - | - | - | - |
| Subordinate financing investments | 1,602,568 | 15,414 | - | 886,997 | 217,035 | 463,774 | 19,348 |
| Venture capital investments | 3,125,030 | - | - | - | 2,221,045 | 751,759 | 152,226 |
| Total portfolio | 37,085,801 | 29,187,439 | - | 886,997 | 2,438,080 | 1,215,533 | 3,357,752 |

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Three months ended
June 30, 2020

| | BDC | Financing | Advisory Services | Growth & Transition Capital | Venture Capital | Incentive Programs | Capital Availability Program |
|---|-------------------|-------------------|-------------------|-----------------------------|------------------|--------------------|------------------------------|
| Interest income | 385,150 | 358,762 | - | 19,889 | - | 1,592 | 4,907 |
| Interest expense | 26,512 | 24,752 | - | 1,483 | 66 | - | 211 |
| Net interest income (expense) | 358,638 | 334,010 | - | 18,406 | (66) | 1,592 | 4,696 |
| Net realized gains (losses) on investments | 12,592 | - | - | (3,808) | 16,400 | - | - |
| Revenue from Advisory Services | 4,056 | - | 4,056 | - | - | - | - |
| Fee and other income | 13,367 | 5,415 | 2 | 4,315 | 2,490 | 420 | 725 |
| Net revenue | 388,653 | 339,425 | 4,058 | 18,913 | 18,824 | 2,012 | 5,421 |
| Provision for expected credit losses | (471,066) | (331,650) | - | - | - | - | (139,416) |
| Net change in unrealized appreciation (depreciation) of investments | 132,247 | (559) | - | (1,422) | 80,891 | 53,337 | - |
| Net foreign exchange gains (losses) | (22,577) | (481) | - | (808) | (20,554) | (576) | (158) |
| Net gains (losses) on other financial instruments | 330 | 330 | - | - | - | - | - |
| Income (loss) before operating and administrative expenses | 27,587 | 7,065 | 4,058 | 16,683 | 79,161 | 54,773 | (134,153) |
| Salaries and benefits | 112,773 | 49,860 | 7,760 | 5,767 | 5,341 | 782 | 43,263 |
| Premises and equipment | 9,729 | 4,307 | 567 | 331 | 469 | 122 | 3,933 |
| Other expenses | 44,107 | 31,939 | 3,014 | 1,101 | 2,567 | 195 | 5,291 |
| Operating and administrative expenses | 166,609 | 86,106 | 11,341 | 7,199 | 8,377 | 1,099 | 52,487 |
| Net income (loss) | (139,022) | (79,041) | (7,283) | 9,484 | 70,784 | 53,674 | (186,640) |
| Net income (loss) attributable to: | | | | | | | |
| BDC's shareholder | (140,970) | (79,041) | (7,283) | 9,602 | 68,718 | 53,674 | (186,640) |
| Non-controlling interests | 1,948 | - | - | (118) | 2,066 | - | - |
| Net income (loss) | (139,022) | (79,041) | (7,283) | 9,484 | 70,784 | 53,674 | (186,640) |
| Business segment portfolio as at June 30, 2020 | | | | | | | |
| Loans, net of allowance for expected credit losses | 28,853,970 | 27,303,930 | - | - | - | - | 1,550,040 |
| Asset-backed securities | 780,716 | 780,716 | - | - | - | - | - |
| Subordinate financing investments | 1,282,264 | 14,898 | - | 966,987 | 133,970 | 161,958 | 4,451 |
| Venture capital investments | 1,954,556 | - | - | - | 1,447,564 | 484,335 | 22,657 |
| Total portfolio | 32,871,506 | 28,099,544 | - | 966,987 | 1,581,534 | 646,293 | 1,577,148 |



12.

Guarantees

BDC issues “letters of credit, loan guarantees and portfolio guarantees” (guarantees) to support businesses. Those guarantees represent BDC’s obligation to make payments to third parties if clients are unable to meet their contractual commitments. Collateral requirements for guarantees are consistent with BDC collateral requirements for loans. The fee income earned is calculated on a straight-line basis over the life of the instrument and recognized in fee and other income in the Consolidated Statement of Income. The maximum contractual obligation and actual exposure under the guarantees totalled \$1,595 million as at June 30, 2021 (\$294.6 million as at March 31, 2021) and the existing terms expire within 130 months (within 120 months as at March 31, 2021).

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 fees were received. In addition, no receivable for the future expected fees was recognized. Subsequent recognition of a liability will only occur when it becomes more likely than not that a client will not meet its contractual commitments. As at June 30, 2021 and March 31, 2021, there were no liabilities recognized in BDC’s Consolidated Statement of Financial Position related to these guarantees.

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

| | June 30, 2021 | | | |
|--|------------------|---------------|----------|----------------|
| Allowance for expected credit losses on loan guarantees | Stage 1 | Stage 2 | Stage 3 | Total |
| Balance as at April 1, 2021 | 12,659 | 12,800 | - | 25,459 |
| Net remeasurement of the allowance for expected credit losses ⁽¹⁾ | (13,444) | 2,031 | - | (11,413) |
| Transfer to Stage 1 ⁽¹⁾ | 6,204 | (6,204) | - | - |
| Transfer to Stage 2 ⁽¹⁾ | (2,545) | 2,545 | - | - |
| Net increase (decrease) in guarantees | 62,923 | 32,523 | - | 95,446 |
| Balance as at June 30, 2021 | 65,797 | 43,695 | - | 109,492 |

| | March 31, 2021 | | | |
|--|-------------------|---------------|----------|---------------|
| Allowance for expected credit losses on loan guarantees | Stage 1 | Stage 2 | Stage 3 | Total |
| Balance as at April 1, 2020 | - | - | - | - |
| Net remeasurement of the allowance for expected credit losses ⁽¹⁾ | 62 | 61 | - | 123 |
| Net increase (decrease) in guarantees | 12,597 | 12,739 | - | 25,336 |
| Balance as at March 31, 2021 | 12,659 | 12,800 | - | 25,459 |

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



13.

Related party transactions

As at June 30, 2021, BDC had \$13,782.4 million outstanding in short-term notes and \$5,068.9 million in long-term notes with Her Majesty the Queen in Right of Canada acting through the Minister of Finance (\$13,336.4 million in short-term notes and \$4,908.6 million in long-term notes as at March 31, 2021).

BDC recorded \$20.6 million in interest expense, related to the borrowings from the Minister of Finance, for the three-months ended June 30, 2021. Last year's comparative figures for the same period was \$27.8 million.

In addition, no borrowings with the Minister of Finance were repurchased in the first three months of fiscal 2022 (\$4,615.0 million in borrowings were repurchased during the same period last year).

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.

14.

Comparative information

BDC made some changes to its reporting structure to align with the delivery of its services, which resulted in the following:

- The portfolios and related results of Growth Equity and Intellectual Property, previously reported under the Growth and Transition Capital segment, were transferred to the Venture Capital segment; and
- The portfolios and related results of Cleantech Practice were transferred to the Capital Incentive Programs segment, and the Cleantech Practice segment was eliminated; and
- The Venture Capital Incentive Programs segment was renamed as the Capital Incentive Programs segment.

These changes only impacted the individual results and investment portfolios of the Growth and Transition Capital, Venture Capital, Capital Incentive Programs and Cleantech Practice segments as presented in Note 11, *Segmented Information*. There was no impact on the Consolidated Statement of Income (loss), or on the Consolidated Statement of Financial Position.

BDC prepared its Consolidated Financial Statements for the quarter ended June 30, 2021, including the comparative information as at June 30, 2020, in accordance with the new internal reporting structure.

The following table summarizes the impact of the above-mentioned changes on the reportable segments as at June 30, 2020.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



| Business Lines | Three months ended June 30, 2020 | Segments reclassification impact | Three months ended June 30, 2020 reclassified |
|---|-------------------------------------|--|---|
| Growth and Transition Capital | | | |
| Interest income | 19,889 | - | 19,889 |
| Interest expense | 1,549 | (66) | 1,483 |
| Net interest income | 18,340 | 66 | 18,406 |
| Net realized gains (losses) on investments | (3,808) | - | (3,808) |
| Fee and other income | 6,799 | (2,484) | 4,315 |
| Net revenue (loss) | 21,331 | (2,418) | 18,913 |
| Net change in unrealized appreciation (depreciation) of investments | (1,422) | - | (1,422) |
| Net foreign exchange gains (losses) | (808) | - | (808) |
| Income (loss) before operating and administrative expenses | 19,101 | (2,418) | 16,683 |
| Salaries and benefits | 6,374 | (607) | 5,767 |
| Premises and equipment | 382 | (51) | 331 |
| Other expenses | 1,106 | (5) | 1,101 |
| Operating and administrative expenses | 7,862 | (663) | 7,199 |
| Net income (loss) | 11,239 | (1,755) | 9,484 |
| Business segment portfolio | 1,100,957 | (133,970) | 966,987 |
| Venture Capital | | | |
| Interest income | - | - | - |
| Interest expense | - | 66 | 66 |
| Net interest income (expense) | - | (66) | (66) |
| Net realized gains (losses) on investments | 16,400 | - | 16,400 |
| Fee and other income | 6 | 2,484 | 2,490 |
| Net revenue | 16,406 | 2,418 | 18,824 |
| Net change in unrealized appreciation (depreciation) of investments | 80,891 | - | 80,891 |
| Net foreign exchange gains (losses) | (20,554) | - | (20,554) |
| Income before operating and administrative expenses | 76,743 | 2,418 | 79,161 |
| Salaries and benefits | 4,734 | 607 | 5,341 |
| Premises and equipment | 418 | 51 | 469 |
| Other expenses | 2,562 | 5 | 2,567 |
| Operating and administrative expenses | 7,714 | 663 | 8,377 |
| Net income | 69,029 | 1,755 | 70,784 |
| Business segment portfolio | 1,447,564 | 133,970 | 1,581,534 |
| Cleantech Practice | | | |
| Interest income | 1,592 | (1,592) | - |
| Interest expense | - | - | - |
| Net interest income (expense) | 1,592 | (1,592) | - |
| Net realized gains (losses) on investments | - | - | - |
| Fee and other income | 337 | (337) | - |
| Net revenue (loss) | 1,929 | (1,929) | - |
| Net change in unrealized appreciation (depreciation) of investments | 5,579 | (5,579) | - |
| Net foreign exchange gains (losses) | (165) | 165 | - |
| Income (loss) before operating and administrative expenses | 7,343 | (7,343) | - |
| Salaries and benefits | 669 | (669) | - |
| Premises and equipment | 102 | (102) | - |
| Other expenses | 97 | (97) | - |
| Operating and administrative expenses | 868 | (868) | - |
| Net income (loss) | 6,475 | (6,475) | - |
| Business segment portfolio | 168,414 | (168,414) | - |
| Capital Incentive Programs | | | |
| Interest income | - | 1,592 | 1,592 |
| Interest expense | - | - | - |
| Net interest income | - | 1,592 | 1,592 |
| Net realized gains (losses) on investments | - | - | - |
| Fee and other income | 83 | 337 | 420 |
| Net revenue | 83 | 1,929 | 2,012 |
| Net change in unrealized appreciation (depreciation) of investments | 47,758 | 5,579 | 53,337 |
| Net foreign exchange gains (losses) | (411) | (165) | (576) |
| Income before operating and administrative expenses | 47,430 | 7,343 | 54,773 |
| Salaries and benefits | 113 | 669 | 782 |
| Premises and equipment | 20 | 102 | 122 |
| Other expenses | 98 | 97 | 195 |
| Operating and administrative expenses | 231 | 868 | 1,099 |
| Net income | 47,199 | 6,475 | 53,674 |
| Business segment portfolio | 477,879 | 168,414 | 646,293 |



15.

Uncertainties related to COVID-19

The outbreak of a novel and highly contagious form of Coronavirus (“COVID-19”), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous government implemented lockdowns and other social distancing measures, adversely impacting global commercial activity and contributing to significant ongoing volatility and declines in the global financial markets. The condensed quarterly Consolidated Financial Statements of BDC prepared as of, and for the quarter ended June 30, 2021, reflect the impacts resulting from COVID-19 to the extent known at the reporting date.



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