



2021

Financial Report

First Quarter

June 30, 2020



Executive Summary

Canadian economic outlook

Economic activity declined sharply as COVID-19 spread to North America and governments implemented lockdown measures in March and early April. The virus and social distancing measures led to a cumulative Gross Domestic Product (GDP) decline of 18% between February and April – when 3 million jobs were lost. This represents the sharpest GDP decline in the post-war era.

After contracting by 12% in April alone, the reopening of the Canadian economy led to initial recovery in May and June. Employment increased during this period by 1.2 million, representing about 40% of jobs lost during the early phase of the crisis. Moving forward, we expect momentum to slow over the second half of 2020, as consumer spending and business investment face greater headwinds. The recovery will be gradual and slow, especially in more affected sectors such as tourism, food services, and the arts and culture. These sectors are unlikely to recover to previous levels before 2022.

The impact on the oil sector is similar. The price of Western Canadian Select has recovered from historic lows in late-April, but remains low at \$30USD/bbl – well below recent highs. The International Energy Agency estimates that Canadian production has declined by some 20% since the start of 2020. Given the recent stability in oil prices, it is plausible that production from Canadian producers will increase in the short run. Other key sectors, such as wholesale and retail trade are likely to experience slow growth rates after a strong initial surge. As consumers delayed many spring purchases, the summer is likely to provide impressive numbers for brick-and-mortar stores. Beyond that, new purchasing habits related to e-commerce are likely to take hold – during the months where lockdown measures were the most stringent, it is estimated that online retail sales exceeded 10% of total sales in Canada for the first time.

U.S. economic growth is likely to follow a path similar to that of Canada – although a spike in cases south of the border has led to multiple States pausing or reversing their

reopening plans. In the meantime, there is still no set date for the reopening of the Canada—U.S. border. International trade is likely to remain a drag, as the World Trade Organization forecasts a double-digit drop in world merchandise trade for 2020. Fortunately, the Canada—U.S.—Mexico Agreement came into force on July 1.

Both the U.S. and Canada's policy interest rates are at their effective lower bounds of 0.25%. Both central banks have ruled out negative interest rates for the time being. Massive quantitative easing programs are likely to remain in place for the next year at least. After depreciating in lockstep with oil prices to \$0.70, the Canadian dollar has since returned to \$0.74 U.S. – close to its 2019 level.

We project a contraction of the GDP by between 7.4% to 8.2% in calendar 2020, before rebounding by between 6.4% to 6.7% in 2021. The path of the economic recovery will depend significantly on the course of the virus. Our base scenario, which doesn't include a second wave, would have the Canadian economy return to its 2019 GDP sometime in mid-2022. A second wave of the virus in the fall would significantly delay the recovery. Correspondingly, the unemployment rate is expected to decline from recent double-digit highs to between 8% to 9.7% by year end. The full recovery of the job market will most likely be lagging the economic recovery.



Financial and achievement highlights

The first quarter of fiscal 2021, ended on June 30, 2020, was marked by unprecedented level of activity to provide relief to SMEs during the COVID-19 pandemic. Financing acceptances and BDC Capital authorizations increased by 33.9% reaching \$3.3 billion compared to \$2.4 billion for the first quarter of fiscal 2020. In this period, the number of acceptances increased by 158.8% compared to the previous year.

With the support of our shareholder, including a specific capital injection of \$8.4 billion, BDC launched a series of special measures to respond to the immediate needs of entrepreneurs. They include the Business Credit Availability Program (BCAP), which is delivered in collaboration with private financial institutions, and measures delivered directly by BDC. These measures are combined under the newly created business segment, the Credit Availability Program (CAP), to distinguish them from BDC core activities. Our core business lines include Financing, Advisory Services, Growth & Transition Capital (GTC), Venture Capital (VC), Venture Capital Incentive Programs (VCIP) and Cleantech Practice.

A consolidated net loss of \$139.0 million was recorded for the first quarter of fiscal 2021, consisting of net income of \$47.6 million for the core business and a net loss of \$186.6 million for the Credit Availability Program (CAP). In comparison, BDC reported net income of \$223.0 million for the same period last year consisting of only the core business. The lower results are mainly attributable to higher provision for expected credit losses reflecting the economic impact of the pandemic.

No dividend was paid in June 2020, compared to a dividend of \$128.4 million paid in fiscal 2020 to our shareholder, the Government of Canada.

Core activities

Financing clients accepted a total of \$0.9 billion in loans for the three-month period, compared to \$2.2 billion for the same period last year. The decrease is explained by the shift from our core activities to the new CAP segment as entrepreneurs' financing needs were met mostly through CAP which saw acceptances of \$1.8 billion. Financing's loans portfolio⁽¹⁾, excluding CAP loans, stood at \$27.3 billion as at June 30, 2020.

Net contracts signed for Advisory Services decreased in the first quarter to \$2.0 million compared to \$7.8 million for the same period last year. Revenues also decreased totalling \$4.1 million for the three-month period, 44.5% lower compared to the same period last fiscal. The slowdown is explained by the shift of resources and activities to support the CAP initiatives to manage the increase in demand from COVID-19 initiatives. As such business development was halted due to the pandemic.

The Advisory Services team launched *Advisory Access* as an immediate response to the COVID-19 crisis, providing clients with a series of tools on bdc.ca and a working session with a BDC advisor. Topics were specific to pandemic challenges including human resources, sources of supply, safe return to work and cashflow management.

GTC clients accepted \$61.2 million in financing in the first three months, compared to \$102.2 million for the same period last year. As expected, there was lower demand for growth equity and business transition financing as entrepreneurs focused on rebuilding their working capital. As a result, activities shifted to CAP where \$144.5 million of financing was accepted to meet working capital needs.

VC authorizations for the first quarter of fiscal 2021 were strong with investments totalling \$72.9 million, compared to \$28.6 million for the same period last year. The increase in authorizations was mainly driven by direct investments which represented \$62.3 million.

VCIP had no authorizations in the first quarter of fiscal 2021 as a result of the program maturity, compared to \$91.0 million in authorizations in the Venture Capital Catalyst Initiative (VCCI) for the same period last year. VCCI commitments to date total \$363.4 million out of a total envelope of \$371.0 million which is expected to be fully committed in fiscal 2021.

Clients of the Cleantech Practice accepted a total of \$47.3 million in subordinate financing investments during the first quarter of fiscal 2021 compared to \$19.7 million for the equivalent period last year.

(1) Net of allowance for expected credit losses



Credit Availability Program (CAP)

The new CAP segment combines a wide range of initiatives offered in response to the COVID-19 crisis. These initiatives extend eligibility criteria to meet the urgent needs of as many viable businesses as possible. Total financing acceptances and investment authorizations for the CAP initiatives reached \$2.2 billion for the first quarter of fiscal 2021. CAP's portfolio⁽¹⁾ stood at \$1.6 billion as at June 30, 2020. CAP initiatives include programs delivered in collaboration with private sector lenders and measures delivered directly by BDC. They include the following:

Co-Lending Program for SMEs

Through this initiative, the commercial support, developed by BDC in partnership with financial institutions, is intended to help Canadian businesses impacted by COVID-19 fund their operational cash flow needs. Eligible businesses may obtain incremental credit amounts up to \$12.5 million, 80% of which would be provided by BDC, with the remaining 20% from their financial institution.

Mid-Market Financing Program

For medium-sized businesses, under this program, BDC is making additional credit available to complement businesses' existing debt facilities, working closely with their primary lenders and is providing support for several sectors including oil and gas. These commercial loans ranging between \$12.5 million and \$60 million will take the form of a junior loan, of which 90% is provided by BDC and 10% by the entrepreneur's existing senior lender or syndicate.

Direct lending

For online loan requests and working capital loans of up to \$2.0 million, we are offering flexible financing terms for qualifying businesses.

Venture Capital

To support Canada's venture capital market, we have launched a Bridge Financing Program. This is a matching convertible note program to increase VC funding to companies that have suffered significant setbacks related to the COVID-19 pandemic.

⁽¹⁾ Net of allowance for expected credit losses



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

For more than 75 years, BDC's purpose has been to support entrepreneurs in all industries and all stages of growth. BDC provides access to financing, both online and in-person, as well as advisory services to help Canadian businesses grow and succeed. Its investment arm, BDC Capital, offers a wide range of 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

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

Risk Management

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, 2020, compared to the corresponding period of the prior fiscal year.

BDC currently reports on seven business segments: Financing, Advisory Services, Growth & Transition Capital (GTC), Venture Capital (VC), Venture Capital Incentive Programs (VCIP), Cleantech Practice and the Credit Availability Program (CAP), a new segment created this fiscal year to report COVID-19 related initiatives.

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.

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

Consolidated net income (loss)

(\$ in millions)	Three months ended June 30	
	F2021	F2020
Financing	(79.0)	129.6
Advisory Services	(7.2)	(10.8)
Growth & Transition Capital	11.2	10.0
Venture Capital	69.0	80.6
Venture Capital Incentive Programs	47.2	11.3
Cleantech Practice	6.4	2.3
Core net income	47.6	223.0
Credit Availability Program	(186.6)	-
Net income (loss)	(139.0)	223.0
Net income (loss) attributable to:		
BDC's shareholder	(140.9)	208.9
Non-controlling interests	1.9	14.1
Net income (loss)	(139.0)	223.0

Three months ended June 30

For the first quarter of fiscal 2021, BDC incurred a consolidated net loss of \$139.0 million, comprising \$140.9 million of net loss attributable to BDC's shareholder and a net income of \$1.9 million attributable to non-controlling interests. For the equivalent period last year, the consolidated net income of \$223.0 million included \$208.9 million attributable to BDC's shareholder and net income of \$14.1 million attributable to non-controlling interests. BDC's consolidated core net income was \$47.6 million compared to \$223.0 million reported for the same period last year. The decrease in the first quarter compared to last year was mostly attributable to higher provision for expected credit losses in Financing offset by higher net change in unrealized appreciation of investments in VCIP.



Results for CAP were negatively impacted by higher provision for expected credit losses and operating and administrative expenses representing recharges from our core business to support CAP activities.

Consolidated comprehensive income (loss)

(\$ in millions)	Three months ended June 30	
	F2021	F2020
Net income (loss)	(139.0)	223.0
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net income (loss)		
Net change in unrealized gains (losses) on FVOCI assets	9.2	1.6
Net change in unrealized gains (losses) on cash flow hedges	(0.3)	(0.3)
Total items that may be reclassified subsequently to net income (loss)	8.9	1.3
Items that will not be reclassified to net income (loss)		
Remeasurements of net defined benefit asset or liability	(401.9)	(92.8)
Other comprehensive income (loss)	(393.0)	(91.5)
Total comprehensive income (loss)	(532.0)	131.5
Total comprehensive income (loss) attributable to:		
BDC's shareholder	(533.9)	117.4
Non-controlling interests	1.9	14.1
Total comprehensive income (loss)	(532.0)	131.5

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 strong volatility as a result of market fluctuations.

BDC recorded other comprehensive losses of \$393.0 million for the first quarter ended June 30, 2020, compared to other comprehensive loss of \$91.5 million for the same period last year. The decrease in OCI for the first quarter was mainly attributable to a remeasurement loss of \$401.9 million on the net defined benefit asset or liability. This loss was due to lower discount rates used to value the net defined benefit liability partially offset by higher returns on pension plan assets than forecasted.



Financing results

	Three months ended June 30	
(\$ in millions)	F2021	F2020
Net interest income	334.0	316.0
Fee and other income	5.4	5.6
Provision for expected credit losses	(331.6)	(76.5)
Net change in unrealized appreciation (depreciation) of investments	(0.6)	(1.4)
Net foreign exchange gains (losses)	(0.4)	(1.6)
Net gains (losses) on other financial instruments	0.3	(0.1)
Income before operating and administrative expenses	7.1	242.0
Operating and administrative expenses	86.1	112.4
Net income (loss) from Financing	(79.0)	129.6

	Three months ended June 30	
As % of average portfolio	F2021	F2020
Net interest income	4.5	4.6
Fee and other income	0.1	0.1
Provision for expected credit losses	(4.5)	(1.1)
Income before operating and administrative expenses	0.1	3.6
Operating and administrative expenses	1.2	1.6
Net income (loss) from Financing	(1.1)	2.0

Three months ended June 30

Net loss from Financing was \$79.0 million for the first quarter of fiscal 2021, compared to a net income of \$129.6 million for the same period last year. The decrease in profitability in the first quarter of fiscal 2021 was mainly due to higher provision for expected credit losses, as a result of the economic downturn resulting from the spread of the coronavirus. This was partially offset by higher net interest income from portfolio growth and lower operating and administrative expenses.

Operating and administrative expenses for the quarter ended June 30, 2020 were \$86.1 million, lower than the \$112.4 million in the corresponding period last year. The decrease in operating and administrative expenses is mainly due to expenses recharged to the CAP segment as financing activities shifted to support the CAP initiatives.



Advisory Services results

(\$ in millions)	Three months ended June 30	
	F2021	F2020
Revenue	4.1	7.3
Delivery expenses ⁽¹⁾	2.5	4.3
Gross operating margin	1.6	3.0
Operating and administrative expenses	8.8	13.8
Net loss from Advisory Services	(7.2)	(10.8)

⁽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 \$7.2 million was recorded for the first quarter of fiscal 2021, compared to a \$10.8 million net loss recorded for the same quarter last year. The \$3.6 million favourable variance is driven by lower operating and administrative expenses due to the temporary redeployment of Advisory Services employees to respond to a high volume of financing requests in CAP.

As expected, results from Advisory Services were impacted by the economic downturn as business development halted due to the pandemic and entrepreneurs postponing their consulting mandates. Advisory Services adapted its offering and launched new advisory service solutions, free consultation and online advice to help businesses plan for recovery. Revenue amounted to \$4.1 million for the first quarter of fiscal 2021, 44.5% lower than the \$7.3 million recorded last year. Gross operating margin, at \$1.6 million for the quarter ended June 30, 2020, was lower than the \$3.0 million recorded for the same period last year, driven mainly by lower revenues.

Operating and administrative expenses of \$8.8 million for the three-month period ended June 30, 2020, were lower than those recorded for the same period of fiscal 2020, mainly due to expenses recharged to the CAP segment as employees were redeployed to support CAP activities.



Growth & Transition Capital results

	Three months ended June 30	
(\$ in millions)	F2021	F2020
Net revenue on investments	21.3	26.5
Net change in unrealized appreciation (depreciation) of investments	(1.4)	(3.7)
Net foreign exchange gains (losses)	(0.8)	(0.4)
Income before operating and administrative expenses	19.1	22.4
Operating and administrative expenses	7.9	12.4
Net income from Growth & Transition Capital	11.2	10.0
Net income (loss) attributable to:		
BDC's shareholder	11.3	10.0
Non-controlling interests	(0.1)	-
Net income from Growth & Transition Capital	11.2	10.0

	Three months ended June 30	
As % of average portfolio	F2021	F2020
Net revenue on investments	7.0	9.2
Net change in unrealized appreciation (depreciation) of investments	(0.5)	(1.3)
Net foreign exchange gains (losses)	(0.3)	(0.1)
Income before operating and administrative expenses	6.2	7.8
Operating and administrative expenses	2.6	4.3
Net income from Growth & Transition Capital	3.6	3.5
Net income (loss) attributable to:		
BDC's shareholder	3.6	3.5
Non-controlling interests	-	-
Net income from Growth & Transition Capital	3.6	3.5



Three months ended June 30

Net income reached \$11.2 million for the first quarter of fiscal 2021, which was \$1.2 million higher compared to the \$10.0 million recorded for the same period last year mainly due to lower net change in unrealized depreciation of investments and operating and administrative expenses. This was offset by lower net revenue on investments and higher net foreign exchange losses.

GTC recorded a net change in unrealized depreciation on investments of \$1.4 million in the first quarter of fiscal 2021, compared to a net change in unrealized depreciation on investments of \$3.7 million during the same period last year, as detailed below. The \$1.4 million net change in unrealized depreciation on investments for the first quarter of fiscal 2021 was mainly explained by the reversal of net fair value depreciation due to realized income of \$6.5 million offset by net fair value depreciation of \$7.9 million.

(\$ in millions)	Three months ended June 30	
	F2021	F2020
Net fair value appreciation (depreciation)	(7.9)	(6.4)
Reversal of net fair value depreciation (appreciation) due to realized income and write-offs	6.5	2.7
Net change in unrealized appreciation (depreciation) of investments	(1.4)	(3.7)

Operating and administrative expenses amounted to \$7.9 million for the three-month period ended June 30, 2020, lower than the \$12.4 million recorded last year. The decrease was mainly due to lower salaries, staff and pension benefits and expenses recharged to the CAP segment to support CAP activities.

Venture Capital results

(\$ in millions)	Three months ended June 30	
	F2021	F2020
Net revenue (loss) on investments	16.4	169.2
Net change in unrealized appreciation (depreciation) of investments	80.9	(67.2)
Net foreign exchange gains (losses)	(20.6)	(14.0)
Income before operating and administrative expenses	76.7	88.0
Operating and administrative expenses	7.7	7.4
Net income from Venture Capital	69.0	80.6
Net income attributable to:		
BDC's shareholder	67.0	66.5
Non-controlling interests	2.0	14.1
Net income from Venture Capital	69.0	80.6



Three months ended June 30

During the first quarter of fiscal 2021, VC recorded a net income of \$69.0 million, compared to net income of \$80.6 million for the same period last year. Results for the first quarter were unfavourably impacted by lower net revenue on investments from realized gain on sales of investments and higher net foreign exchange losses partially offset by higher net change in unrealized appreciation of investments.

VC recorded a net change in unrealized appreciation of investments of \$80.9 million for the first quarter of fiscal 2021, compared to a net change in unrealized depreciation of \$67.2 million for the same period last year, as detailed below.

(\$ in millions)	Three months ended June 30	
	F2021	F2020
Net fair value appreciation (depreciation)	84.1	96.9
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	(3.2)	(164.1)
Net change in unrealized appreciation (depreciation) of investments	80.9	(67.2)

In the first quarter of fiscal 2021, net foreign exchange losses on investments of \$20.6 million were recorded due to foreign exchange fluctuations on the portfolio in U.S. dollars compared to net foreign exchange losses on investments of \$14.0 million recorded for the same period last year.

Operating and administrative expenses were \$7.7 million, \$0.3 million higher than those recorded for the same period of fiscal 2020. The increase in operating and administrative expenses is mainly due to higher salaries, staff and pension benefits to support the increase in the portfolio, offset by expenses recharged to the CAP segment to support CAP activities.

Venture Capital Incentive Programs results

(\$ in millions)	Three months ended June 30	
	F2021	F2020
Net revenue (loss) on investments	-	0.1
Net change in unrealized appreciation (depreciation) of investments	47.8	11.9
Net foreign exchange gains (losses)	(0.4)	(0.2)
Income before operating and administrative expenses	47.4	11.8
Operating and administrative expenses	0.2	0.5
Net income from Venture Capital Incentive Programs	47.2	11.3



Three months ended June 30

During the first quarter of fiscal 2021, VCIP recorded a net income of \$47.2 million, compared to a net income of \$11.3 million for the same period last year.

The strong fiscal 2021 results were driven by a higher net fair value appreciation on investments compared to the first quarter of fiscal 2020.

Operating and administrative expenses of \$0.2 million for the three-month period ended June 30, 2020 were lower than those recorded for the same periods of fiscal 2020. The decrease was mainly due to expenses recharged to the CAP segment to support CAP activities.

Cleantech Practice results

(\$ in millions)	Three months ended June 30	
	F2021	F2020
Net revenue on investments	1.9	1.2
Net change in unrealized appreciation (depreciation) of investments	5.6	2.0
Net foreign exchange gains (losses)	(0.2)	0.1
Income before operating and administrative expenses	7.3	3.3
Operating and administrative expenses	0.9	1.0
Net income from Cleantech Practice	6.4	2.3

Three months ended June 30

Cleantech Practice reported a net income of \$6.4 million for the first quarter of fiscal 2021, compared to a net income of \$2.3 million for the same period last year. Results were favourably impacted by higher net fair value appreciation on investments and higher net revenue on investments.



Credit Availability Program results

(\$ in millions)	Three months ended June 30	
	F2021	F2020
Net interest income	4.7	-
Fee and other income	0.7	-
Provision for expected credit losses	(139.4)	-
Net foreign exchange gains (losses)	(0.1)	-
Loss before operating and administrative expenses	(134.1)	-
Operating and administrative expenses	52.5	-
Net loss from Credit Availability Program	(186.6)	-

Three months ended June 30

CAP recorded a net loss of \$186.6 million for the first quarter of fiscal 2021 which is mainly driven by the provision for expected credit losses on loans of \$139.4 million reflecting current economic uncertainty due to the pandemic. The operating and administrative expenses of \$52.5 million are explained by higher costs incurred in the start-up phase of this new portfolio mainly from employees' efforts to handle the excessive demand. The level of recharges is expected to decrease over time as the portfolio stabilizes.

Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows

As at June 30, 2020, total BDC assets amounted to \$39.2 billion, an increase of \$6.0 billion from March 31, 2020, largely due to the \$4.2 billion increase in cash and cash equivalents combined with the \$1.6 billion increase in our net loans portfolio. On June 23, 2020, BDC received \$7.503 billion in cash for the issuance of 75,030,000 common shares, which represents a capital injection to support a series of measures BDC launched for Canadian businesses during the COVID-19 crisis including the delivery of CAP.

At \$28.9 billion, the loans portfolio represented BDC's largest asset (gross portfolio of \$30.5 billion less a \$1.6 billion allowance for expected credit losses). The gross loans portfolio grew by 7.0% over the quarter ended June 30, 2020, reflecting an increase in the level of activity of CAP, which accounts for \$1.6 billion in additional loans.

BDC's investment portfolios, which include the GTC and VC portfolios, stood at \$3.2 billion, compared to \$3.0 billion as at March 31, 2020. The increase of \$0.2 billion was mainly driven by disbursements and net fair value appreciation for VC investments. The asset-backed securities portfolio stood at \$780.7 million, compared to \$777.8 million as at March 31, 2020.

As at June 30, 2020, the fair value of derivative assets was \$10.3 million and the fair value of derivative liabilities was \$0.7 million. Net derivative fair value increased by \$13.4 million since March 31, 2020.



As at June 30, 2020, BDC recorded a net defined benefit liability of \$606.3 million for the registered pension plan and the other plans. This represented an increase of \$401.7 million, compared to the total net defined benefit liability as at March 31, 2020, primarily as a result of remeasurement losses recorded in the first three months of fiscal 2021. Refer to page 9 of this report for further information on remeasurements of net defined benefit asset or liability.

BDC holds cash and cash equivalents in accordance with its Treasury Risk Policy. BDC liquidities, which ensure funds are available to meet its cash outflows, totalled \$6.0 billion as at June 30, 2020, compared to \$1.8 billion as at March 31, 2020. 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.

For the three-month period ended June 30, 2020, operating activities used \$1.7 billion, mainly to support the growth of the loans portfolio. Cash flows used by investing activities amounted to \$0.2 billion, reflecting net disbursements for GTC and VC investments. Financing activities provided \$6.1 billion in cash flow, mainly as a result of \$7.5 billion in common shares issuance and \$0.5 billion of long-term notes issuance, offset by \$1.9 billion repayment on short-term loans.

As at June 30, 2020, BDC funded its portfolios and liquidities with borrowings of \$22.2 billion and total equity of \$15.9 billion. Borrowings comprised \$17.5 billion in short-term notes and \$4.7 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.

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 is 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 VC), 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.

BDC's internal capital ratio, excluding VCIP, Cleantech and CAP, stood at 103% as at June 30, 2020, below its target capital ratio of 110%, compared to 112% as at March 31, 2020. The decrease in our internal capital ratio is primarily attributable to the volatility in the market rates used to measure our net defined benefit liability resulting in an other comprehensive loss of \$401.9 million for the quarter and also an increase in provision for expected credit losses which reduced available capital. Despite this unfavourable impact, 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.

Michael Denham
President and Chief Executive Officer

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

Montreal, Canada
August 19, 2020



Consolidated Statement of Financial Position

(unaudited)

(in thousands of Canadian dollars)	Notes	June 30, 2020	March 31, 2020
ASSETS			
Cash and cash equivalents		6,018,229	1,821,397
Derivative assets		10,336	12,356
Loans			
Loans, gross carrying amount	6	30,460,299	28,472,261
Less: allowance for expected credit losses	6	(1,606,329)	(1,199,173)
Loans, net of allowance for expected credit losses		28,853,970	27,273,088
Investments			
Asset-backed securities	7	780,716	777,838
Subordinate financing investments	8	1,282,264	1,240,588
Venture capital investments	9	1,954,556	1,721,136
Total investments		4,017,536	3,739,562
Property and equipment		67,578	67,704
Intangible assets		42,262	41,525
Right-of-use-assets		127,272	127,523
Net defined benefit asset		-	41,781
Other assets		36,117	28,422
Total assets		39,173,300	33,153,358
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities		244,836	158,292
Derivative liabilities		668	16,125
Borrowings			
Short-term notes		17,454,051	19,362,224
Long-term notes		4,704,268	4,207,066
Total borrowings		22,158,319	23,569,290
Lease Liabilities			
Short-term lease liabilities		12,990	12,063
Long-term lease liabilities		125,616	125,138
Total lease liabilities		138,606	137,201
Net defined benefit liability		606,317	246,443
Other liabilities		150,756	123,208
Total liabilities		23,299,502	24,250,559
Equity			
Share capital	10	11,511,900	4,008,900
Contributed surplus		27,778	27,778
Retained earnings		4,303,371	4,846,219
Accumulated other comprehensive income		17,688	8,763
Equity attributable to BDC's shareholder		15,860,737	8,891,660
Non-controlling interests		13,061	11,139
Total equity		15,873,798	8,902,799
Total liabilities and equity		39,173,300	33,153,358

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	
	2020	2019
Interest income	385,150	431,522
Interest expense	26,512	92,165
Net interest income	358,638	339,357
Net realized gains (losses) on investments	12,592	167,831
Revenue from Advisory Services	4,056	7,312
Fee and other income	13,367	11,261
Net revenue	388,653	525,761
Provision for expected credit losses	(471,066)	(76,509)
Net change in unrealized appreciation (depreciation) of investments	132,247	(58,491)
Net foreign exchange gains (losses)	(22,577)	(15,965)
Net gains (losses) on other financial instruments	330	(61)
Income before operating and administrative expenses	27,587	374,735
Salaries and benefits	112,773	106,604
Premises and equipment	9,729	10,336
Other expenses	44,107	34,832
Operating and administrative expenses	166,609	151,772
Net income (loss)	(139,022)	222,963
Net income (loss) attributable to:		
BDC's shareholder	(140,970)	208,930
Non-controlling interests	1,948	14,033
Net income (loss)	(139,022)	222,963

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	
	2020	2019
Net income (loss)	(139,022)	222,963
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net income (loss)		
Net change in unrealized gains (losses) on fair value through other comprehensive income assets	9,176	1,630
Net change in unrealized gains (losses) on cash flow hedges	(251)	(296)
Total items that may be reclassified subsequently to net income (loss)	8,925	1,334
Items that will not be reclassified to net income (loss)		
Remeasurements of net defined benefit asset or liability	(401,878)	(92,837)
Other comprehensive income (loss)	(392,953)	(91,503)
Total comprehensive income (loss)	(531,975)	131,460
Total comprehensive income (loss) attributable to:		
BDC's shareholder	(533,923)	117,427
Non-controlling interests	1,948	14,033
Total comprehensive income (loss)	(531,975)	131,460

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, 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

(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, 2019	2,602,900	27,778	5,076,074	2,751	4,622	7,373	7,714,125	41,635	7,755,760
Total comprehensive income									
Net income			208,930				208,930	14,033	222,963
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on fair value through other comprehensive income assets				1,630		1,630	1,630		1,630
Net change in unrealized gains (losses) on cash flow hedges					(296)	(296)	(296)		(296)
Remeasurements of net defined benefit asset or liability			(92,837)				(92,837)		(92,837)
Other comprehensive income (loss)	-	-	(92,837)	1,630	(296)	1,334	(91,503)	-	(91,503)
Total comprehensive income	-	-	116,093	1,630	(296)	1,334	117,427	14,033	131,460
Dividends on common shares			(128,400)				(128,400)		(128,400)
Distributions to non-controlling interests								(75)	(75)
Transactions with owner, recorded directly in equity	-	-	(128,400)				(128,400)	(75)	(128,475)
Balance as at June 30, 2019	2,602,900	27,778	5,063,767	4,381	4,326	8,707	7,703,152	55,593	7,758,745

(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	
	2020	2019
	June 30	
Operating activities		
Net income (loss)	(139,022)	222,963
Adjustments to determine net cash flows		
Interest income	(385,150)	(431,522)
Interest expense	25,973	91,677
Interest on lease liabilities	539	488
Net realized losses (gains) on investments	(12,592)	(167,831)
Provision for expected credit losses	471,066	76,509
Net change in unrealized depreciation (appreciation) of investments	(132,247)	58,491
Net unrealized foreign exchange losses (gains)	29,823	14,355
Net unrealized losses (gains) on other financial instruments	(79)	357
Defined benefits funding below (in excess of) amounts expensed	(224)	3,809
Depreciation of property and equipment, and amortization of intangible assets	5,169	4,610
Depreciation of right-of-use assets	3,873	3,645
Other	(6,902)	(2,701)
Interest expense paid	(27,932)	(88,555)
Interest income received	372,480	423,716
Changes in operating assets and liabilities		
Net change in loans	(2,006,722)	(603,797)
Net change in accounts payable and accrued liabilities	86,544	7,051
Net change in other assets and other liabilities	(24,859)	7,441
Net cash flows provided (used) by operating activities	(1,740,262)	(379,294)
Investing activities		
Disbursements for asset-backed securities	(68,945)	(129,961)
Repayments and proceeds on sale of asset-backed securities	75,258	77,041
Disbursements for subordinate financing investments	(93,882)	(144,358)
Repayments of subordinate financing investments	47,662	59,691
Disbursements for venture capital investments	(143,153)	(56,218)
Proceeds on sale of venture capital investments	33,571	202,518
Acquisition of property and equipment	(2,623)	(6,343)
Acquisition of intangible assets	(3,158)	(2,492)
Net cash flows provided (used) by investing activities	(155,270)	(122)
Financing activities		
Net change in short-term notes	(1,902,855)	(150,000)
Issue of long-term notes	495,000	650,000
Distributions to non-controlling interests	(37)	(75)
Capital injections from non-controlling interests	11	-
Issuance of common shares	7,503,000	-
Dividends paid on common shares	-	(128,400)
Payment of lease liabilities	(2,755)	(3,895)
Net cash flows provided (used) by financing activities	6,092,364	367,630
Net increase (decrease) in cash and cash equivalents	4,196,832	(11,786)
Cash and cash equivalents at beginning of period	1,821,397	703,980
Cash and cash equivalents at end of period	6,018,229	692,194

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

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.

BDC's condensed quarterly Consolidated Financial Statements follow the same basis of preparation as our audited Consolidated Financial Statements for the year ended March 31, 2020. They should be read in conjunction with the audited Consolidated Financial Statements for the year ended March 31, 2020 and the accompanying notes as set out on pages 62 to 128 of BDC's 2020 Annual Report.

The condensed quarterly Consolidated Financial Statements have also been prepared in accordance with the accounting policies BDC expects to use in its annual Consolidated Financial Statements for the year ending March 31, 2021. If BDC changes the application of these policies, it may result in a restatement of these condensed quarterly Consolidated Financial Statements.

The condensed quarterly Consolidated Financial Statements were approved for issue by the Board of Directors on August 19, 2020.



3.

Significant accounting policies

BDC's condensed quarterly Consolidated Financial Statements follow the same accounting policies as our audited Consolidated Financial Statements for the year ended March 31, 2020, with the exception of the following change to note 24 Risk management of the 2020 Annual Report: 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. These policies have been consistently applied to all periods presented in these condensed quarterly Consolidated Financial Statements and have been applied consistently by all entities consolidated by BDC.

These condensed quarterly Consolidated Financial Statements must be read in conjunction with BDC's 2020 Annual Report and the accompanying notes, as set out on pages 62 to 128 of our 2020 Annual Report.

4.

Significant accounting judgements, estimates and assumptions

Preparation of the Consolidated Financial Statements requires management to make judgements and use estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

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

For information about the significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the condensed quarterly Consolidated Financial Statements, refer to page 79 of our 2020 Annual Report.

Uncertainties related to COVID-19

Since March 2020, the Coronavirus outbreak rapidly evolved resulting in an economic crisis. The economic environment remains uncertain at the reporting date and continues to have a significant impact on our financial results. The recovery will depend on the speed at which the outbreak is controlled. As at June 30, 2020, in light of the current uncertainty, significant judgement was made in the assessment of the impact of COVID-19 on the allowance for expected credit losses (ECL), particularly with regards to the macro-economic scenarios and the corresponding weights of these scenarios, including expert credit judgement as considered necessary, which contributed to an increase in loans classified in stage 2 and a higher level of allowance for expected credit losses. Actual results may differ materially from those recorded on June 30, 2020.

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



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.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

	Fair value measurements using			June 30, 2020 Total fair value
	Level 1	Level 2	Level 3	
Assets				
Derivative assets	-	10,336	-	10,336
Asset-backed securities	-	780,716	-	780,716
Subordinate financing investments	20,600	-	1,261,664	1,282,264
Venture capital investments	65,450	-	1,889,106	1,954,556
	86,050	791,052	3,150,770	4,027,872
Liabilities				
Derivative liabilities	-	668	-	668
Long-term notes designated as fair value through profit or loss	-	136,048	-	136,048
	-	136,716	-	136,716
				March 31, 2020
	Fair value measurements using			Total fair value
	Level 1	Level 2	Level 3	
Assets				
Derivative assets	-	12,356	-	12,356
Asset-backed securities	-	777,838	-	777,838
Subordinate financing investments	7,161	-	1,233,427	1,240,588
Venture capital investments	44,314	-	1,676,822	1,721,136
	51,475	790,194	2,910,249	3,751,918
Liabilities				
Derivative liabilities	-	16,125	-	16,125
Long-term notes designated as fair value through profit or loss	-	135,734	-	135,734
	-	151,859	-	151,859

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, 2020	1,233,427	1,676,822	2,910,249
Net realized gains (losses) on investments	-	16,849	16,849
Net change in unrealized appreciation (depreciation) of investments	(2,039)	106,458	104,419
Net unrealized foreign exchange gains (losses) on investments	-	(20,156)	(20,156)
Disbursements for investments	85,883	143,152	229,035
Repayments of investments and other	(55,607)	(31,069)	(86,676)
Transfers from level 3 to level 1	-	(2,950)	(2,950)
Fair value as at June 30, 2020	1,261,664	1,889,106	3,150,770

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

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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	430,424	4,039,987	24,876,466	29,346,877	(1,153,483)	28,193,394
Impaired	61,272	154,312	897,838	1,113,422	(452,846)	660,576
Loans as at June 30, 2020	491,696	4,194,299	25,774,304	30,460,299	(1,606,329)	28,853,970

	Within 1 year	1 to 5 years	Over 5 years	Total gross carrying amount	Allowance for expected credit losses	Total net carrying amount
Performing	431,261	2,881,530	24,097,877	27,410,668	(784,505)	26,626,163
Impaired	47,155	162,819	851,619	1,061,593	(414,668)	646,925
Loans as at March 31, 2020	478,416	3,044,349	24,949,496	28,472,261	(1,199,173)	27,273,088

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, 2020	270,249	514,256	414,668	1,199,173
Provision for credit losses				
Transfer to Stage 1 ⁽¹⁾	53,674	(53,674)	-	-
Transfer to Stage 2 ⁽¹⁾	(62,999)	69,160	(6,161)	-
Transfer to Stage 3 ⁽¹⁾	(308)	(16,599)	16,907	-
Net remeasurement of allowance for expected credit losses ⁽²⁾	145,485	174,796	57,306	377,587
Financial assets that have been fully repaid	(5,460)	(10,158)	(14,317)	(29,935)
New financial assets originated	110,017	25,666	-	135,683
Write-offs	-	-	(19,788)	(19,788)
Recoveries	-	-	4,179	4,179
Foreign exchange and other movements	(26,531)	(34,091)	52	(60,570)
Balance as at June 30, 2020	484,127	669,356	452,846	1,606,329

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

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

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

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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 \$3,344,320 as at June 30, 2020 (\$783,458 at fixed rates; \$2,560,862 at floating rates). The weighted average effective interest rate was 3.94% on loan commitments (5.3% as at June 30, 2019).

Geographic distribution	June 30, 2020		March 31, 2020	
	Outstanding	Commitments	Outstanding	Commitments
Newfoundland and Labrador	897,610	45,517	870,736	66,841
Prince Edward Island	79,259	3,942	78,750	2,098
Nova Scotia	713,889	72,834	676,641	82,782
New Brunswick	525,378	28,258	524,227	38,746
Quebec	9,643,835	1,036,340	8,960,967	943,956
Ontario	8,463,185	927,595	7,784,743	839,924
Manitoba	843,248	79,049	805,175	80,986
Saskatchewan	819,180	86,182	793,821	62,499
Alberta	4,356,446	579,393	4,131,995	483,156
British Columbia	3,939,595	463,992	3,673,584	458,736
Yukon	120,681	5,757	117,235	3,019
Northwest Territories and Nunavut	57,993	15,461	54,387	11,906
Total loans outstanding⁽¹⁾	30,460,299	3,344,320	28,472,261	3,074,649

Industry sector	June 30, 2020		March 31, 2020	
	Outstanding	Commitments	Outstanding	Commitments
Manufacturing	6,805,278	886,980	6,434,657	857,111
Wholesale and retail trade	5,634,690	602,602	5,204,352	511,853
Service industries	4,623,621	513,809	4,156,135	414,829
Tourism	3,532,462	285,048	3,295,761	273,727
Commercial properties	3,183,890	110,971	3,148,960	130,238
Construction	2,581,170	327,094	2,364,589	298,909
Transportation and storage	1,843,316	164,864	1,778,237	170,721
Resources	1,219,798	252,393	1,145,173	230,917
Other	1,036,074	200,559	944,397	186,344
Total loans outstanding⁽¹⁾	30,460,299	3,344,320	28,472,261	3,074,649

⁽¹⁾ Loans commitments included \$2,653,437 in the Financing segment, and \$690,883 in the Credit Availability Program segment as at June 30, 2020 (\$3,074,649, and nil respectively, as at March 31, 2020).

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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			Total
	Stage 1	Stage 2	Stage 3	
Balance as at April 1, 2020	41,778	25,281	-	67,059
Net remeasurement of the allowance for expected credit losses	4,879	4,314	-	9,193
Net increase (decrease) in commitments	32,094	1,730	-	33,824
Foreign exchange and other movements	167	1,524	-	1,691
Balance as at June 30, 2020	78,918	32,849	-	111,767

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

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, 2020 or March 31, 2020. No allowances for expected credit losses were recorded for disbursed and undisbursed ABS at fair value through other comprehensive income as at June 30, 2020 or March 31, 2020.

	June 30, 2020	March 31, 2020
Fair value through other comprehensive income		
Principal amount	756,350	762,715
Cumulative fair value appreciation (depreciation)	14,442	5,266
Carrying value	770,792	767,981
Yield	2.49%	2.59%
Fair value through profit or loss		
Principal amount	9,685	9,701
Cumulative fair value appreciation (depreciation)	239	156
Carrying value	9,924	9,857
Yield	7.43%	7.56%
Asset-backed securities	780,716	777,838

Committed amounts of authorized asset-backed securities were \$244,810 as at June 30, 2020 (\$238,489 as at March 31, 2020).

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, 2020	172,763	851,650	407,404	1,431,817	1,282,264
As at March 31, 2020	165,748	808,846	419,049	1,393,643	1,240,588

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 \$195,911 as at June 30, 2020 (\$129,166 at fixed rates; \$66,745 at floating rates). The weighted average effective interest rate was 7.7% on subordinate financing commitments (8.9% as at June 30, 2019), excluding non-interest return.

Geographic distribution	June 30, 2020			March 31, 2020		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Newfoundland and Labrador	19,853	28,297	6,875	18,402	26,509	6,875
Nova Scotia	14,034	15,903	-	10,557	12,720	5,000
New Brunswick	14,396	15,291	-	16,044	16,387	-
Quebec	427,574	460,928	40,195	426,149	462,558	35,050
Ontario	437,959	492,782	96,116	442,600	498,251	66,251
Manitoba	1,720	3,316	-	1,720	3,316	10,500
Saskatchewan	45,599	57,816	-	46,224	58,169	600
Alberta	156,239	186,056	28,281	136,548	167,057	25,615
British Columbia	162,100	168,507	24,444	139,509	145,709	26,431
Yukon	325	332	-	325	332	-
Northwest Territories and Nunavut	2,465	2,589	-	2,510	2,635	-
Subordinate financing investments⁽¹⁾	1,282,264	1,431,817	195,911	1,240,588	1,393,643	176,322

Industry sector	June 30, 2020			March 31, 2020		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Manufacturing	391,372	449,415	46,224	367,429	430,194	42,104
Service industries	345,916	370,621	78,179	327,271	349,335	67,951
Wholesale and retail trade	186,243	211,455	27,808	190,756	211,079	10,400
Resources	119,819	142,522	11,000	105,545	133,594	9,000
Information industries	100,661	111,822	18,221	101,800	112,665	19,614
Construction	54,053	59,028	9,500	57,691	63,012	10,000
Transportation and storage	48,298	52,439	3,300	48,431	52,565	3,300
Educational services	12,539	13,154	-	11,457	12,043	11,250
Tourism	8,604	9,810	1,679	10,419	11,762	2,703
Other	14,759	11,551	-	19,789	17,394	-
Subordinate financing investments⁽¹⁾	1,282,264	1,431,817	195,911	1,240,588	1,393,643	176,322

⁽¹⁾ Subordinate financing commitments included \$900 in the Financing segment, \$128,459 in the Growth & Transition Capital segment, \$50,644 in the Cleantech Practice segment, and \$15,908 in the Credit Availability Program segment as at June 30, 2020 (\$3,400, \$125,641, \$47,281, and nil respectively, as at March 31, 2020).

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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, 2020			March 31, 2020		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Direct investments	797,181	726,995	73,568	692,194	633,443	33,812
Indirect investments in funds ⁽¹⁾	1,157,375	880,610	774,939	1,028,942	848,180	811,658
Venture capital investments ⁽²⁾	1,954,556	1,607,605	848,507	1,721,136	1,481,623	845,470

⁽¹⁾ As at June 30, 2020, BDC has invested in 86 funds through its VC segment, 21 funds through its VCIP segment and 3 funds through its Cleantech Practice segment (84, 21 and 3 funds, respectively, as at March 31, 2020).

⁽²⁾ Venture Capital commitments included \$413,552 in the Venture Capital segment, \$336,191 in the Venture Capital Incentive Programs segment, \$46,992 in the Cleantech Practice segment, and \$51,772 in the Credit Availability Program segment as at June 30, 2020 (\$449,622, \$347,712, and \$48,136, and nil respectively, as at March 31, 2020)

Concentrations of total venture capital investments and commitments

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

Industry sector	June 30, 2020			March 31, 2020		
	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Information technology	411,110	344,766	27,003	376,573	303,365	12,151
Communications	95,852	82,725	4,564	86,829	69,161	1,906
Electronics	59,090	71,354	4,325	58,792	70,836	796
Biotechnology and pharmacology	52,964	57,936	10,232	46,879	57,754	4,415
Medical and health	44,533	60,777	11,374	24,169	55,481	-
Industrial	33,051	26,705	6,788	33,799	26,705	-
Energy	26,309	19,670	482	27,137	19,670	482
Other	74,272	63,062	8,800	38,016	30,471	14,062
Total direct investments	797,181	726,995	73,568	692,194	633,443	33,812

10.

Share capital

An unlimited number of common shares, having a par value of \$100 each, is authorized. As at June 30, 2020, there were 115,119,000 common shares outstanding (40,089,000 as at March 31, 2020).

On June 23, 2020, BDC received \$7.503 billion in cash for the issuance of 75,030,000 common shares, which represents a capital injection to support a series of measures BDC launched for Canadian businesses during the COVID-19 crisis including the delivery of the Business Credit Availability Program (BCAP).

Statutory limitations

As per the BDC Act, the debt-to-equity ratio of BDC may not exceed 12:1. This ratio is defined as the aggregate of borrowings recognized in the Consolidated Statement of Financial Position and contingent liabilities that exist in the form of financial guarantees issued by BDC over equity attributable to BDC's shareholder excluding accumulated other comprehensive income.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

During the three months ended June 30, 2020 and the year ended March 31, 2020, 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 will incorporate changes in both the available capital definition as well as in the required capital quantification. The new framework is 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 seven business lines: Financing, Advisory Services, Growth & Transition Capital (GTC), Venture Capital (VC), Venture Capital Incentive Programs (VCIP), Cleantech Practice 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** provides investments to cover every stage of a technology-based company's development cycle, from seed funding to expansion. VC is 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.
- **Venture Capital Incentive Programs** includes Venture Capital Action Plan (VCAP) and Venture Capital Catalyst Initiative (VCCI). 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.
- **Cleantech Practice** provides subordinate financing and venture capital investments to promising clean technology firms. Cleantech Practice will deploy \$600.0 million entrusted by the federal government in debt and equity transactions to help build globally competitive Canadian cleantech firms and a commercially sustainable cleantech industry.
- **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 COVID-19 related measures from our core activities. The initiatives extend eligibility criteria to ensure we are meeting the urgent needs of as many viable businesses as possible. They include the Business Credit Availability Program which is delivered in collaboration with private sector lenders, and measures delivered directly by BDC.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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.

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



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

	Three months ended June 30, 2020							
	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice	Credit Availability Program
Interest income	385,150	358,762	-	19,889	-	-	1,592	4,907
Interest expense	26,512	24,752	-	1,549	-	-	-	211
Net interest income	358,638	334,010	-	18,340	-	-	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	6,799	6	83	337	725
Net revenue	388,653	339,425	4,058	21,331	16,406	83	1,929	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	47,758	5,579	-
Net foreign exchange gains (losses)	(22,577)	(481)	-	(808)	(20,554)	(411)	(165)	(158)
Net gains (losses) on other financial instruments	330	330	-	-	-	-	-	-
Income before operating and administrative expenses	27,587	7,065	4,058	19,101	76,743	47,430	7,343	(134,153)
Salaries and benefits	112,773	49,860	7,760	6,374	4,734	113	669	43,263
Premises and equipment	9,729	4,307	567	382	418	20	102	3,933
Other expenses	44,107	31,939	3,014	1,106	2,562	98	97	5,291
Operating and administrative expenses	166,609	86,106	11,341	7,862	7,714	231	868	52,487
Net income (loss)	(139,022)	(79,041)	(7,283)	11,239	69,029	47,199	6,475	(186,640)
Net income (loss) attributable to:								
BDC's shareholder	(140,970)	(79,041)	(7,283)	11,357	66,963	47,199	6,475	(186,640)
Non-controlling interests	1,948	-	-	(118)	2,066	-	-	-
Net income (loss)	(139,022)	(79,041)	(7,283)	11,239	69,029	47,199	6,475	(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	-	1,100,957	-	-	161,958	4,451
Venture capital investments	1,954,556	-	-	-	1,447,564	477,879	6,456	22,657
Total portfolio	32,871,506	28,099,544	-	1,100,957	1,447,564	477,879	168,414	1,577,148

Notes to the Consolidated Financial Statements

(unaudited, in thousands of Canadian dollars)



Three months ended
June 30, 2019

	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Venture Capital Incentive Programs	Cleantech Practice	Credit Availability Program
Interest income	431,522	405,471	-	25,136	-	-	915	-
Interest expense	92,165	89,505	-	2,660	-	-	-	-
Net interest income	339,357	315,966	-	22,476	-	-	915	-
Net realized gains (losses) on investments	167,831	(1)	-	(320)	168,152	-	-	-
Revenue from Advisory Services	7,312	-	7,312	-	-	-	-	-
Fee and other income	11,261	5,596	-	4,393	966	55	251	-
Net revenue	525,761	321,561	7,312	26,549	169,118	55	1,166	-
Provision for expected credit losses	(76,509)	(76,509)	-	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	(58,491)	(1,416)	-	(3,744)	(67,170)	11,887	1,952	-
Net foreign exchange gains (losses)	(15,965)	(1,629)	-	(359)	(13,967)	(154)	144	-
Net gains (losses) on other financial instruments	(61)	(61)	-	-	-	-	-	-
Income before operating and administrative expenses	374,735	241,946	7,312	22,446	87,981	11,788	3,262	-
Salaries and benefits	106,604	78,196	12,572	10,481	4,392	286	677	-
Premises and equipment	10,336	8,187	1,042	583	415	55	54	-
Other expenses	34,832	25,986	4,523	1,336	2,623	164	200	-
Operating and administrative expenses	151,772	112,369	18,137	12,400	7,430	505	931	-
Net income (loss)	222,963	129,577	(10,825)	10,046	80,551	11,283	2,331	-
Net income (loss) attributable to:								
BDC's shareholder	208,930	129,577	(10,825)	10,049	66,515	11,283	2,331	-
Non-controlling interests	14,033	-	-	(3)	14,036	-	-	-
Net income (loss)	222,963	129,577	(10,825)	10,046	80,551	11,283	2,331	-
Business segment portfolio as at June 30, 2019								
Loans, net of allowance for expected credit losses	26,442,635	26,442,635	-	-	-	-	-	-
Asset-backed securities	754,873	754,873	-	-	-	-	-	-
Subordinate financing investments	1,231,264	10,428	-	1,129,594	-	-	91,242	-
Venture capital investments	1,981,531	-	-	-	1,505,019	476,512	-	-
Total portfolio	30,410,303	27,207,936	-	1,129,594	1,505,019	476,512	91,242	-



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 \$10.2 million as at June 30, 2020 (\$11.1 million as at March 31, 2020) and the existing terms expire within 112 months (within 115 months as at March 31, 2020).

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, 2020 and March 31, 2020, there were no liabilities recognized in BDC’s Consolidated Statement of Financial Position related to these guarantees.

13.

Related party transactions

As at June 30, 2020, BDC had \$17,446.1 million outstanding in short-term notes and \$4,568.2 million in long-term notes with Her Majesty the Queen in Right of Canada acting through the Minister of Finance (\$19,356.3 million in short-term notes and \$4,071.3 million in long-term notes as at March 31, 2020).

BDC recorded \$27.8 million in interest expense, related to the borrowings from the Minister of Finance, for the three-months ended June 30, 2020. Last year’s comparative figures for the same period was \$94.2 million.

In addition, \$4,615.0 million in borrowings with the Minister of Finance were repurchased in the first three months of fiscal 2021. These transactions did not result in any gains or losses in the first three months of fiscal 2021 (\$310.0 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.

Uncertainties related to COVID-19

The outbreak of a novel and highly contagious form of Coronavirus (“COVID-19”), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous deaths, adversely impacting global commercial activity and contributing to significant ongoing volatility and declines in the global financial markets. The Consolidated Financial Statements of BDC prepared as of, and for the quarter ended June 30, 2020 reflect the impacts resulting from COVID-19 to the extent known at the reporting date.



Business Development Bank of Canada

Head Office

5 Place Ville-Marie, Suite 100

Montreal, Quebec H3B 5E7

T 1 877 BDC-BANX (232-2269)

F 1 877 329-9232

For our business centres, please visit www.bdc.ca

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