2021 annual report

bdc

The bank for Canadian entrepreneurs.

Table of Contents

> “BDC’s ability to support entrepreneurs quickly and effectively through the pandemic confirmed once again the essential role BDC plays for the Canadian economy and business owners.”

Message from the Chairperson of the Board of Directors

As Canada’s development bank and the bank for entrepreneurs, BDC plays an important role in being there for business owners when times are tough. BDC’s ability to fulfill this mandate was tested as never before during the last fiscal year.

The COVID-19 pandemic had a severe impact on small and medium-sized businesses in every part of the country. I am pleased to report that BDC responded quickly and effectively.

In an all-hands-on-deck effort, the Bank met a massive increase in demand for support in the early stages of the pandemic by redeploying hundreds of employees, and streamlining and improving processes.

BDC’s response to the pandemic

BDC was a key participant in Canada’s whole-of-government COVID-19 response, leading the way in the development and roll-out of programs to support entrepreneurs in concert with private sector financial institutions. These included the **Co-Lending Program** for small and medium-sized businesses, the **Mid-Market Financing Program** for medium-sized and larger businesses and the **Bridge Financing Program** for venture capital-backed firms.

As it became clear that some industries were being much more severely affected than others, BDC took the lead on the design and launch of the **Highly Affected Sectors Credit Availability Program (HASCAP)**, which provides loans for small and medium-sized businesses that have seen their revenues decrease by 50% or more as a result of COVID-19. BDC provides a guarantee to financial institutions for 100% of the value of the HASCAP loans and this increases businesses’ ability to access new credit.

In designing, developing and launching these programs, **BDC worked very closely with private sector financial institutions** to ensure that much-needed financial support reached more entrepreneurs, faster.

These programs provided access to financing and capital for thousands of business owners when they needed it the most.

Board priorities

All this activity meant increased responsibility for the Board of Directors as we oversaw the Bank's response to the pandemic and other important projects. Overall, we held **a record of 82 board and committee meetings**, including numerous emergency sessions to approve COVID-related programs. I wish to thank the board members for their tremendous dedication and wise counsel through this period.

Our oversight role included ensuring prudent management of the Bank's capital, as **BDC necessarily took on more risk**.

While responding effectively to the pandemic was of the highest importance in fiscal 2021, the board also had to ensure BDC kept its focus on other priorities.

> The Bank continued to make progress on its **digital transformation**. The pandemic highlighted the importance of this project and the need for further investments so that BDC brings more ease and speed in the way it does business with entrepreneurs. We also continued to focus on making sure that BDC is well equipped to protect its clients' data and to respond to potential cyber attacks.

> Another key focus for the board was overseeing the strategic cohesion of **BDC's management and disclosures of climate change-related opportunities and risks**. Using the principles and guidelines of the Task Force on Climate-related Financial Disclosure (TCFD), BDC is building on its support for cleantech entrepreneurs to begin supporting those in other sectors of the economy who must tackle climate-related challenges. BDC is also learning to understand, manage and disclose climate-related risks in its portfolio.

> We closely followed BDC's activities aimed at **increasing diversity and inclusion** both in its support for entrepreneurs and internally. The Bank has put in place new programs to improve access to financing for many groups, including women, Indigenous and Black entrepreneurs.

We thank **departing board member Robert Pitfield** for his eight years of dedicated service both as a member of the board and as Chair of the Board Risk Committee. Rob provided invaluable expertise and guidance, notably on enhancements to the Bank's risk management function and its response to the pandemic. We were pleased to **welcome Bill Currie to the Board of Directors** this year.

Thank you to BDC's departing CEO

After two terms and six outstanding years of leadership, the **mandate of President and CEO Michael Denham comes to an end in the summer of 2021**. On behalf of the entire Board of Directors, I would like to thank Michael for leading BDC through years of exceptional growth and accomplishment, capped off by the Bank's response to the pandemic.

Over the six years of Michael's tenure, **BDC almost doubled both the number of entrepreneurs it serves and the size of its portfolio**. BDC is today a stronger, more visible development bank, championing diversity, inclusion and innovation in the entrepreneurial ecosystem, a bank turned confidently towards the future and ready to accompany Canada's entrepreneurs through the recovery.

Michael showed an unwavering engagement to understanding entrepreneurs' challenges and worked tirelessly to make BDC the best development bank that it can be. We wish Michael much success and good health as he takes on new challenges in the years ahead.

I would also like to **welcome Isabelle Hudon as President and CEO of BDC starting August 2021**. Our board is highly confident that, under Isabelle's experienced leadership, BDC will continue to do what it does best: make a difference for Canada's entrepreneurs.

Looking to the future with confidence

BDC's ability to support entrepreneurs quickly and effectively through the pandemic confirmed once again the **essential role BDC plays for the Canadian economy and business owners**. As the recovery takes hold and businesses return to growth, BDC will continue to contribute to the economic vitality of communities in every part of our country.

On behalf of the Board of Directors, I would like to **thank BDC's management team and its 2,500 employees for their outstanding work** during the past year. You came together as one to provide financial support and advice for entrepreneurs and ensure a degree of continuity through the pandemic. You can take satisfaction in the knowledge that when entrepreneurs needed you most, you answered the call.

Sincerely,

Mike Pedersen
Chairperson of the Board

Message from the President and CEO

By any measure, the past year was one of the most extraordinary in our history. The COVID-19 pandemic caused extreme hardship for business owners in every part of the country. As they struggled with business disruptions and cash flow problems, BDC stepped up to provide financing and advice support to help.

Our support for entrepreneurs through the pandemic

On March 13, 2020, all 2,500 BDC employees across Canada went home for what was to become their last day in the office since the beginning of the health crisis. Within days, we transitioned **100% of our workforce to efficiently working remotely**.

As lockdowns were forcing businesses to close or reduce their operations, we faced an **unprecedented surge in demand** for BDC's loans during the initial stages of the pandemic. In March 2020, we received **more loan requests through our online platform in less than three weeks than we typically do in a full year**.

Our employees worked harder than ever last year. Thanks to upgrades in our digital lending capabilities, reallocation of resources and the hard work, ingenuity and flexibility of our employees, we **authorized over $9 billion in financing during fiscal 2021 and onboarded more than 10,000 new clients**, for a total of 72,000 business owners. The Bank's total portfolio now stands at $41.2 billion in capital committed to small and medium-sized businesses.

BDC worked with the Government of Canada and private sector financial institutions to support businesses hit by the pandemic.

> Through the **Business Credit Availability Program (BCAP)**, BDC authorized close to **$1 billion to 800 Canadian businesses** in partnership with private sector financial institutions.

> In the **Highly Affected Sectors Credit Availability Program (HASCAP)**, we joined forces again with more than 50 private sector financial institutions to provide low-interest loans of up to $1 million to businesses in sectors especially hard hit by the pandemic.

"Our employees worked harder than ever last year. Thanks to upgrades in our digital lending capabilities, reallocation of resources and the hard work, ingenuity and flexibility of our employees, we authorized over $9 billion in financing during fiscal 2021 and onboarded more than 10,000 new clients, for a total of 72,000 business owners."

> We also moved quickly to respond to a reduction in venture capital investments with our **Bridge Financing Program** for innovative start-ups. Delivered by BDC Capital, our investment arm, this program invested $180 million through 100 deals to support some of Canada's most promising and fastest-growing tech start-ups.

We also authorized close to **$2.6 billion in direct financing** specifically designed as a COVID response, helping **17,000 business owners** ensure continuity of operations.

With so many entrepreneurs facing hardship, the role of our advisory services team in providing business advice was more important than ever. For example, the team delivered the **Advisory Access program**, which offered eligible clients free consultations with BDC experts to get advice on how to cope with challenges flowing from the pandemic. Through this program, we supported more than 1,000 entrepreneurs.

Building a more diverse and inclusive entrepreneurial ecosystem

Women, Indigenous, Black, visible minority and LGBTQ2+ entrepreneurs have traditionally faced more challenges in starting and growing businesses, including more difficulty in accessing capital. The **pandemic has accentuated some of these long-standing inequalities**.

Supporting diversity and inclusion in Canada's entrepreneurial ecosystem has long been part of our strategy at BDC. We have developed and implemented extensive initiatives to support women and Indigenous entrepreneurs that have produced substantial success in recent years.

> For example, we achieved—ahead of schedule—an aggressive three-year goal to provide **$1.4 billion in loans to majority women-owned businesses**.

> We also worked with the National Aboriginal Capital Corporations Association (NACCA) to create Canada's newest, largest Indigenous social impact fund. This **$150-million Indigenous Growth Fund** will ensure that capital flows to Indigenous entrepreneurs through a pan-Canadian network of Aboriginal Financial Institutions, reaching into remote and urban Indigenous communities. BDC is a lead investor and our partnership with NACCA has been integral in creating this fund as we led negotiations on behalf of the federal government and other investing Crown corporations. In all, BDC has a portfolio of half a billion dollars in loans with close to 900 Indigenous entrepreneurs.

> Building on extensive consultations with employees, entrepreneurs and Black organizations, we recently turned our focus towards **increasing our support for Black entrepreneurs**. On behalf on BDC, I signed the **BlackNorth Initiative CEO pledge**, committing to specific actions and targets designed to end anti-Black systemic racism. We **expanded our partnership with Futurpreneur**, an organization that supports young entrepreneurs, to deliver up to $60,000 in start-up financing to young Black business owners. We also invested in a new $10-million **Black Innovation Fund**, focused on early-stage Canadian tech companies founded by Black entrepreneurs.

We will continue to do our part to ensure that all entrepreneurs have access to the resources, financing, advice, networks and tools they need to succeed.

Helping entrepreneurs in the transition to a greener economy

With climate change being one of the most pressing issues impacting our future, we took more decisive action to support entrepreneurs in their efforts to transition to a low-carbon economy.

> One of the ways we are contributing to the fight against climate change is through our support for **cleantech companies**. Since 2018, we have invested more than half a billion dollars to help develop world-leading cleantech firms. Our **Cleantech Practice** is one of the largest, most active investors of its kind in Canada.

> **We also accompany entrepreneurs in all industries**, regardless of where they are in their sustainable journey, with insight, advice and strategic tools.

> As the first financial institution in Canada to be certified as a B Corp, we continue to support the **B Corp movement** of environmentally and socially responsible businesses.

> BDC has committed to become **carbon neutral in its operations by 2025** and we will be applying the principles of the Task Force on Climate-related Disclosures.

Strong support for innovation and scaling up businesses

A dynamic tech sector led to a record year of financing and growth in the Canadian market. Through our investment arm, BDC Capital, we have maintained our focus on innovation and scaling up companies as key drivers of Canada's international competitiveness in the years ahead. Our Venture Capital division backs **800 companies through direct investments** in businesses and **indirect investments in 100 VC funds**.

> Last year, we launched a $160-million **intellectual property (IP) development financing envelope**, the first of its kind in Canada. We have a dedicated team of investment professionals whose goal is to provide IP-rich companies with the capital they need.

> We took action to fill another critical gap in Canada's innovation investment landscape with the launch of the **Deep Tech Venture Fund**. This $200-million fund will invest in start-ups in such sectors as quantum technology, photonics, foundational artificial intelligence, advanced materials and cybersecurity.

> BDC Capital launched a second growth equity fund to fuel the expansion of mid-sized companies. The $250-milllion **Growth Equity Partners Fund II** will take minority equity positions to allow entrepreneurs to invest in growth while retaining control of their businesses with less risk.

Making it easier and faster to do business with us

The pandemic drove home the urgency of making it as easy as possible for entrepreneurs to do business with us. That's why we will continue to **invest in our digital transformation** with the goal of providing the best possible client experience for entrepreneurs.

> We now offer a lending experience that provides entrepreneurs with **24/7 digital access** to our products and services from anywhere in Canada.

> We launched our first client-facing app, **BDC Mobile**. It allows our clients on iOS to access customized insights and advice from their mobile device to make more informed financial decisions.

> We continue to automate our processes and use data analytics, dynamic electronic forms and artificial intelligence to evolve our digital lending platform, better anticipate entrepreneur needs and provide them with more insightful advice.

Financial results

For fiscal 2021, BDC earned consolidated net income of $1.6 billion, which will be reinvested in providing additional financing and other programs to support entrepreneurs through the recovery. BDC also declared a $735 million dividend to the Government of Canada, its sole shareholder.

The positive financial result was largely due to appreciation of the Bank's Venture Capital portfolio where a record year of growth of the Canadian tech sector led to a significant increase in the portfolio's fair value. Also, like many other financial institutions, BDC reversed credit loss provisions during the year, as Canadian business owners showed incredible resilience through the pandemic and anticipated losses didn't materialize.

Six years working alongside Canada's entrepreneurs

Back in 2015, I signed up for a five-year term as President and CEO of BDC. Given the circumstances surrounding the pandemic, I agreed to renew for an additional year to ensure stability. My second term comes to an end in the summer of 2021.

I have often said **leading BDC is one of the best jobs** in Canada. The intense experience we lived through the past year only confirmed my deep appreciation for BDC's team and the importance of our mission as the bank for entrepreneurs.

I would like to thank all BDC employees for their dedication, especially over the past year. You have proven once again that BDC not only makes a difference for tens of thousands of entrepreneurs but is also a truly great place to work. We were again recognized as one of **Canada's Top 100 Employers, and Canada's Best Diversity Employers**. You should all be proud of that.

It has been a privilege to work by your side for Canadian entrepreneurs for the past six years. I am proud of everything we accomplished. Thank you. **We expanded BDC's reach and we filled important gaps** to ensure that underserved entrepreneurs have access to the financing and resources they need.

With the recovery gathering momentum, I leave with the confidence that BDC will be there to support business owners, helping them rebuild and renew with growth.

Sincerely,

Michael Denham
President and CEO

Management's Discussion and Analysis

1 Economic Environment

The worldwide COVID-19 pandemic and widespread lockdowns to contain it drove the global economy into a severe recession in 2020. Global economic growth decreased by 3.3% for the full year, according to International Monetary Fund estimates, the deepest recession since the Second World War. The speed and synchronized nature of the contraction led governments and central banks around the world to adopt unprecedented policy responses in an effort to ease the economic damage.

China was the first economy to be hit by the coronavirus. In the first quarter of 2020, China's economic activity dropped by 6.8%. However, the country was able to recover from the crisis faster than others and was the only large economy to experience positive growth in 2020 at 2.3%. By contrast, the advanced economies contracted by 4.7% while emerging markets dropped by 2.2%.

Through the year, authorities around the world adjusted containment measures in response to the evolving health situation in their country. This resulted in stop-and-go closures and reopenings throughout the year. Output losses were particularly large for countries that rely on tourism and other service industries. Tourism, accounting for around 10.5% of global GDP, was badly hurt by the pandemic as were other high-contact businesses, such as food service, entertainment, arts and accommodation.

Global trade increased by 1.3% compared to 2019, rebounding faster than global industrial output. The recovery in exports was led by deliveries of Asian goods. This reflected the initial collapse and subsequent recovery in demand for consumer products around the world.

By mid-year, global economic conditions had started to improve, but uncertainty remained elevated. In late October, vaccines were proven to be effective against the virus, and the rollout of vaccination campaigns has been the barometer of economic recovery ever since.

In the **United States**, GDP decreased by 3.5% in 2020. Households and businesses became more cautious about spending during the pandemic. Consumption decreased by 3.9% compared to 2019 and non-residential investment fell by 4%. However, residential investment increased by 6.1%.

The initial wave of COVID-19 led to the loss of a staggering 20.5 million jobs in April alone in the United States. As health restrictions were eased over the following months, employment slowly recovered but remained weakened by the pandemic. By the end of 2020, the U.S. was still around 10 million jobs below its pre-pandemic level.

The Federal Reserve has held its policy rate near zero since the beginning of the crisis and has purchased Treasury securities and mortgage-backed securities to support the economic recovery. A $900-billion stimulus package adopted at the end of 2020 supported consumer spending at the beginning of 2021, and additional stimulus supported spending in the spring of 2021 as a recovery began to take hold.

In **Canada**, 2020 was also the weakest year in the post-war era. GDP declined 5.4% compared to 2019. However, the Canadian economy proved to be resilient, with many sectors recovering when health restrictions began to be eased in May 2020.

Canada's economic recovery was also strongly supported by the immediate response of the Government of Canada. Numerous programs were introduced to help individuals and businesses during this difficult period.

The impact of the pandemic continues to be uneven across industries, producing a K-shaped recovery. The burden of health and safety measures fell heavily on workers and businesses in high-contact service industries. Following the pattern seen elsewhere in the world, economic activity in the accommodation, food services, arts, entertainment and recreation sectors declined steadily after September 2020, when a second COVID wave forced another round of lockdowns.

Financial conditions in Canada improved during the crisis. In contrast to previous recessions, the balance sheets of businesses and households held up well during the year. An inability to spend due to lockdowns combined with government transfers led to a significant increase in household savings. Government assistance to businesses, such as rent and wage subsidies, softened the impact of the recession on entrepreneurs. The Bank of Canada followed the same path as central banks in other major countries by lowering its policy rate to its lower bound (0.25%) and maintaining large-scale bond purchases. These measures added much liquidity to the economy.

The pandemic brought a lot of uncertainty and dampened consumer and entrepreneur confidence. Business investment declined by 11.5% during 2020 and consumption by 6.1%. However, like in the U.S., Canada's residential investment increased significantly (+3.9%).

Even though business investment declined, the **financing needs** of Canadian businesses increased significantly at the beginning of the crisis. Contrary to past recessions, private sector financial institutions continued to make ample credit available to businesses. Business loan disbursements increased by 4.2% in March 2020 in Canada, the highest monthly growth rate in 40 years.

After hitting a low of US$0.69 during the first wave of the pandemic, the **Canadian dollar** recovered and, by the end of March 2021, was at US$0.79—a level, not seen since 2018. Rising prices for oil and other commodities, as well as a decline in the value of the U.S. dollar against most currencies, explained the strength of the Canadian dollar.

Oil prices fell to the lowest levels ever recorded at the beginning of the pandemic. However, they recovered as the world economy improved and the OPEC+ group of producers agreed to limit supply in May 2020. The price of the main benchmarks surpassed their pre-pandemic levels at the beginning of 2021.

In summary, the COVID-19 pandemic created instability and lockdowns that led to a severe global recession in 2020. Economic activity in both the Canada and the United States fell to its slowest pace since the Second World War. Governments and central banks injected fiscal and monetary stimulus to support businesses and households. Once vaccines were shown to be effective against the virus, confidence regarding the recovery grew stronger.

2 Expected results and performance indicators

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

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

Short term (1 year)

Objective	Performance indicator	Target Fiscal 2021	Result Fiscal 2021	Percentage achieved	Comment
→ Support more entrepreneurs	# of clients[1]	52,000	**59,588**	115%	BDC strives to help SMEs meet their financing and advice needs. Through its COVID relief measures, BDC extended its reach to thousands of entrepreneurs who had not previously been clients. Our digital platforms were critical to our ability to respond to an unprecedented surge in financing requests during the pandemic crisis. This helped BDC exceed its target for the number of direct clients in its portfolio.
→ Provide asset-light financing	$ of acceptances for GTC (excluding growth equity), online financing and information and communication technology leveraged loans ($ in millions)	800	**1,318**	165%	BDC supports businesses that require financing even if they have little or no collateral. The need for such financing was highlighted during fiscal 2021 when BDC mitigated the impact of the pandemic by substantially increasing its support to entrepreneurs, allowing the Bank to largely exceed its target, mainly due to high demand for online financing.
→ Support Indigenous entrepreneurs	# of clients identified as Indigenous	850	**881**	104%	BDC supports a growing number of Indigenous entrepreneurs as part of its commitment to reach a diverse array of entrepreneurs. One example of this support is the specialized Indigenous Entrepreneur Loan. After the end of the fiscal year, BDC and its partners launched the Indigenous Growth Fund, in collaboration with the National Aboriginal Capital Corporations Association, to further increase access to capital for Indigenous entrepreneurs.
→ Make it easy for clients to do business with BDC	% of very satisfied clients[2]	67	**65**	97%	BDC continues to work on providing an exceptional client experience, recognizing this is critical to fulfilling its mission. The result, which is slightly lower than the objective, reflects a sudden and enormous increase in demand that led to unavoidable delays in response times at the outset of the COVID-19 crisis. BDC has since adapted its processes and made operational changes to ensure capital is deployed to its clients in the most efficient manner possible.
→ Provide advisory services to accelerate growth, innovation and productivity[3]	Revenue from Advisory Services ($ in millions)	30	**21**	70%	The revenue generated is below the objective because the COVID-19 crisis forced many entrepreneurs to put their investments in business projects and operations on hold to preserve cash flow. Consequently, many ongoing advisory projects were delivered at a slower pace and entrepreneurs postponed new investments in advisory services.

Short term (1 year) (continued)

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

(1) BDC direct clients excluding Capital Incentive Programs clients. Clients in more than one unit are only counted once.

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

(3) Provide advisory services to accelerate growth, innovation and productivity remains as a short-term, one-year performance indicator, but the definition has evolved.

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

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

Medium term (3 years)

Objective	Performance indicator	Target (T) ending in Fiscal	Result Fiscal 2021	Comment
Support women entrepreneurs	$ authorized, GTC and Financing, for majority women-owned businesses ($ in millions, cumulative F2019 to F2021)	T2021 1,400	**1,753**	We successfully achieved our three-year target ahead of plan and have significantly increased the number of women entrepreneurs we finance. Our success was due in large part to appointing dedicated champions from all lines of business across the country and partnering with many organizations who also work with women entrepreneurs.
Work in partnerships to extend reach and provide support to entrepreneurs	# of indirect clients	T2023 12,500	**13,233**	BDC reaches more entrepreneurs by working with other financial institutions, alternative lenders and investing in venture capital funds. Despite the challenging economic environment brought on by the COVID-19 pandemic, partnerships in support of the recovery helped increase the number of indirect clients to levels higher than target by fiscal 2023. Our first partnership with a large credit union reflects our ongoing efforts to collaborate with an increasing number of organizations to extend our reach.
Make it easy and efficient to do business with BDC	% of online financing loans that are touchless[4]	T2023 70	Less than **10%**	In the last year, BDC has enhanced its online lending experience by significantly improving and speeding up the loan process through automation of almost every step. While the pandemic delayed the deployment of our digitization efforts, BDC has made good progress in streamlining the process for entrepreneurs.

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

(4) Touchless refers to an automated process that occurs when all relevant variables and verifications are deemed reliable and accurate.

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

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

Long term (5 years)

Long term (5 years) (continued)

Objective	Performance indicator	Target (T) ending in Fiscal	Result Fiscal 2021	Comment
Support women-led tech firms	$ authorized to women in tech (VC) ($ in millions, cumulative to Fiscal 2023)	T2023 100	90.4	BDC has committed to invest $100 million through fiscal 2023 via the Women in Technology Venture Fund and expects to surpass this target before the end of the period.
Fulfill its complementary role by supporting underserved entrepreneurs	% of Financing portfolio that is sub-investment grade(5)	T2022 Maintain a minimum of 93	90.2	BDC activities are complementary to those of other financial institutions. To help Canadian entrepreneurs during the pandemic, governments have implemented exceptional support measures. The capital made available through these initiatives enabled the risk profile of clients to improve toward investment grade ratings. As pandemic-related measures are reduced through fiscal 2022, BDC expects the trend to reverse and credit ratings to move towards the long-term target.
Provide financing and advisory services that enable clients to succeed	% of clients who reported a positive impact on their business following the services they received from BDC(6)	T2022 Maintain a minimum of 89	88	BDC continues to ensure clients receive tailored support that meets their needs. The result, slightly lower than the objective, nonetheless demonstrates the impact the Bank's employees, financing products and tailored advisory solutions have had on Canadian SMEs in response to a huge increase in demand from entrepreneurs with urgent needs during the pandemic.
Help restore the venture capital asset class to profitability to attract private sector investors	BDC direct VC funds total value to paid-in capital (TVPI)(7)	T2022 1.25 or higher	2.18	BDC aims to have profitable venture capital operations to attract investors to this asset class. In a world changed by COVID-19, the tech sector has remained resilient since the outbreak of the pandemic. This is helping Venture Capital exceed the TVPI target.
Accelerate entrepreneurs' competitiveness	Results of BDC impact study(8)	T2023 BDC has a positive impact on revenue growth	N/A	BDC strives to support the growth of businesses. The latest study performed by Statistics Canada in 2019 showed that BDC clients achieved better results in terms of revenue, productivity and employment growth than they would have if they had not turned to BDC. The next study results will be available in fiscal 2022.
Increase the amount of capital available to Canada's promising cleantech firms	$ accepted, Cleantech Practice ($ in millions, cumulative Fiscal 2018 to Fiscal 2022)(9)	T2022 600	371	Since the launch of this initiative, we have achieved good results by building a strong network of partners and a promising pipeline of cleantech firms to support. Due to the pandemic, and the need to reserve capital for follow-on investments for companies already in the portfolio, we now anticipate the goal of investing $600 million in cleantech businesses will be reached in fiscal 2024, two years later than originally planned.

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

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

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

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

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

(9) Includes Financing, Growth & Transition Capital and Venture Capital.

3 Analysis of Financial Results

Lines of business

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

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 fiscal 2021, in order to be better aligned with the delivery of its services, BDC made some minor changes to its reporting structure. 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) and Cleantech Practice, three government-sponsored programs managed by BDC. Refer to Note 25—*Segmented information*, and Note 28—*Comparative information*, of the Consolidated Financial Statements for complete details.

At BDC, diversity and inclusion are part of our business strategy to provide greater access to financing and advice to underserved and diverse groups of entrepreneurs, including women, Indigenous, Black, LGBTQ+, and other minorities. Our commitment starts internally with a measurable action plan and extends to our Client Diversity strategy which guides our support for underserved Canadian entrepreneurs. This strategy ensures all business owners can thrive in the Canadian entrepreneurial ecosystem, and that every employee has a diverse and inclusive mindset to help our clients excel.

Activities

The COVID-19 pandemic caused extreme hardship for business owners in every part of the country. As a result, BDC faced an unprecedented surge in demand for loans during the initial stages of the pandemic.

In response to the urgent needs of Canadian entrepreneurs, BDC, in concert with our shareholder and the private sector, launched a series 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 private financial institutions, as well as measures delivered directly by BDC. All of these COVID-19 measures have been grouped under the Credit Availability Program (CAP), a newly created business segment, to distinguish them from BDC core activities.

Core results are driven by the activities of the Financing, Advisory Services, Growth and Transition Capital, Venture Capital and Capital Incentive Program business lines, whereas those of the CAP segment result from all of BDC's COVID-19 relief measures.

Overall, BDC's clients accepted $9.0 billion in loans and subordinate financing investments, and BDC authorized $591.5 million of venture capital investments.

Core activities

BDC Financing helps improve the competitiveness of small and medium-sized enterprises (SMEs) by providing term lending and collaborating with other financial institutions to increase credit availability in the market through co-lending, syndicated loans and indirect financing. During the year, clients of Financing accepted a total of $5.2 billion in loans, a decrease of 29.7% compared to $7.4 billion in fiscal 2020.

BDC strives to reach more entrepreneurs and have a greater impact on their businesses. This is especially true for underserved and diverse entrepreneurs, such as women in business and Canada's Indigenous people.

Starting January 2018, BDC committed $1.4 billion in financing over three years for majority women-owned businesses. BDC has since authorized $1.8 billion in loans, which exceeds its objective, and over the past three years, BDC has already doubled the number of women entrepreneurs it finances. To help women succeed, BDC has made it a priority to support them at every stage of their business journey from accessing capital to finding networks, mentors and resources.

BDC believes that entrepreneurship plays an important part in the economic and social progress of Canada`s Indigenous people. During fiscal 2021, BDC committed $456.4 million to 881 Indigenous clients across Canada.

BDC Advisory Services provides entrepreneurs with high-value advisory services, in the form of a variety of solutions for small, medium and larger companies, as well as free online educational content and a program targeting high-growth firms. Net contracts signed by Advisory Services amounted to $17.8 million compared with $30.7 million recorded last year. This reflects the uncertainty brought on by COVID-19, which has made it more difficult for entrepreneurs to afford advisory services.

GTC provides cash flow, mezzanine, quasi-equity and equity financing to support the growth and transition projects of SMEs with strong business models and management teams but limited tangible assets to offer as collateral. Clients of GTC accepted $124.4 million in financing for fiscal 2021, compared to $431.8 million for fiscal 2020. The decrease in acceptances reflects the expected lower demand for business growth and transition financing as entrepreneurs' focused on rebuilding their working capital, and volumes shifted to CAP.

With more baby boomers heading toward retirement, there is a growing need for business transition financing. BDC recognizes the importance of preserving the value built up in businesses as one generation makes way for another. As such, GTC has invested over $580.3 million in change-of-ownership transactions since December 2017 and is on track with its pledge to invest $900 million in such deals over five years.

Venture Capital invests directly in companies in multiple sectors and is also Canada's largest investor in private funds. During fiscal 2021, BDC continued to strengthen the innovation ecosystem with its venture capital activities. These activities helped Canadian innovators launch and grow technology-focused businesses and commercialize innovations. In fiscal 2021, VC authorized investments totalling $362.3 million, compared to $275.7 million last year.

In fiscal 2021, BDC's Women in Technology Venture Fund (WIT) directly invested $32.0 million in 18 companies through new and follow-on investments. Given its aim to promote the development of the ecosystem for women in tech and investments roles, the fund continued to support the emerging managers with a female General Partner and a focus on fostering women-led firms. This brings the total investments since inception of this fund to $90.4 million made in 34 companies and five funds. In June 2019, BDC launched the $250 million Industrial Innovation Venture Fund which focuses on technological innovations in the industrial sector. Our commitment reached $46.3 million in fiscal 2021.

With its first fund fully committed, BDC will launch a $250-million follow-on internal fund in fiscal 2022. The new growth equity internal fund will maintain a focus on mid-sized businesses seeking support for their growth initiatives but will target a broader range of companies. To support the economic recovery, this internal fund will also work to facilitate acquisitions in the post-COVID period.

On behalf of the Government of Canada, BDC continued to manage Capital Incentive Programs, which includes $390 million for VCAP to support promising Canadian start-ups, $371 million for VCCI and $100 million for Indigenous Growth Fund (IGF).

Introduced in fiscal 2019, VCCI aims to increase the availability of late stage VC and support underrepresented groups, such as women, diverse entrepreneurs and management teams, as well as emerging regions and sectors. Authorizations for VCCI reached $7.5 million in fiscal 2021 for a total commitment to date of $365.7 million.

CIP also includes Cleantech Practice, which will deliver $600 million in additional capital extended to BDC by the federal government to help build globally competitive Canadian cleantech firms and a long-term, commercially sustainable cleantech industry that can attract significant private capital investment. In fiscal 2021, a further $125.0 million was committed to cleantech firms bringing the total net commitment since inception to $370.8 million. This commitment includes both direct investments (debt and equity) of $311.5 million and indirect investments to cleantech-focused funds of $59.3 million ($189.4 million and $54.3 million, respectively in fiscal 2020).

VC launched a new intellectual property (IP) development financing envelope of $160 million in fiscal 2021 to support IP companies in Canada. This new envelope, which is the first of its kind in Canada, will provide customized, patient capital in the form of subordinate financing debt, convertible debt and equity to accelerate commercialization, and will be part of the VC segment. These will be scaling companies in knowledge-based industries with rich IP portfolios and at least $1.0 million in annual revenue.

The $150 million Indigenous Growth Fund (IGF), under the management of the National Aboriginal Capital Corporations Association (NACCA), was also launched in fiscal 2021. Through the Aboriginal Financial Institutions, the fund will provide loans to new and expanding Indigenous businesses. The IGF's innovative evergreen fund model will offer institutional and social impact investors a vehicle for investment that will directly contribute to economic reconciliation.

Credit Availability Program (CAP) activities

As lockdowns were imposed in the spring of 2020 to slow the spread of the coronavirus, entrepreneurs were suddenly confronted with severe cash-flow difficulties and an urgent need for credit. 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, delivered directly by us or in collaboration with the private sector and are as follows:

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 loan 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, to give entrepreneurs financial breathing room needed to bridge their business to a more stable time.

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 contribution of private investor syndicates that have arranged funding rounds of at least $250,000 since February 1, 2020.

Initiatives delivered in collaboration with the private sector

Business Credit Availability Program

The Business Credit Availability Program (BCAP) takes a collaborative approach to supporting the financing needs of entrepreneurs during the pandemic. Building on our well-established relationships with Export Development Canada (EDC) and private sector lenders, BDC collaboratively provided support to financially viable Canadian businesses in all sectors and regions. Our efforts, together with those of EDC and 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 a junior loan, range in size between $12.5 million and $60 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 private sector financial institutions. 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 financing acceptances and investment authorizations for the CAP initiatives reached $3.7 billion for fiscal 2021. CAP's loan portfolio, net of allowance for expected credit losses, stood at $3.0 billion as at March 31, 2021.

Financial results overview

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

The outbreak of 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 as a result, BDC returned to consolidated positive net income for the year ended March 31, 2021, after having reported a consolidated net loss for fiscal 2020.

Concurrently, a record year of growth of the Canadian tech sector led to a significant increase in the Venture Capital portfolio's fair value. And, like other financial institutions, BDC adjusted its credit loss provisions during the year due to favourable macro-economic conditions, as Canadian SMEs showed incredible resilience through the pandemic and anticipated losses didn't materialize. These were some of the factors that contributed to a positive year in terms of consolidated net income.

Consolidated net income (loss)

For fiscal 2021, BDC generated a consolidated net income of $1.6 billion. The increase of $1.8 billion compared to net loss of $218.0 million reported in fiscal 2020 was largely due to higher fair value appreciation on the investments portfolio and lower provision on expected credit losses. Net income attributable to BDC's shareholder amounted to $1,647.7 million, while net income of $2.2 million was attributable to non-controlling interests related to Growth & Transition Capital and Venture Capital operations.

Core net income (loss)

BDC's consolidated core net income was $2.0 billion, compared to a net loss of $218.0 million reported in fiscal 2020. The increase in core net income was mostly attributable to higher fair value appreciation in GTC, Venture Capital and Capital Incentive Programs investments and lower provision for expected credit losses in the Financing portfolio.

Net income from Financing was $733.1 million, an increase of $701.0 million from last year. The increase was mainly due to higher net interest income, lower operating and administrative expenses and lower provision for expected credit losses related to a faster than expected recovery of the economy after the shock caused by the COVID-19.

Advisory Services reported a net loss of $39.4 million, lower than the net loss of $46.8 million recorded last year. Revenue for fiscal 2021 reached $21.0 million compared to $29.2 million last year, whereas delivery expenses amounted to $12.0 million compared to $18.0 million last year.

Growth & Transition Capital recorded a net income of $114.8 million for fiscal 2021, compared to a net loss of $32.9 million last year. The favourable results were mainly due to higher net fair value appreciation on investments due mainly to partial reversal of fair value depreciation taken in fiscal 2020 due to the impact of the economic uncertainty brought on by the COVID-19 pandemic.

Venture Capital recorded a net income of $902.5 million for fiscal 2021, compared to a net loss of $86.9 million recorded last year. VC's financial results were favourably impacted by the higher net fair value appreciation on investments due to fair value increases. While we closed last year amid uncertainty, we have seen greater momentum for this asset class and appetite for innovation from investors which was confirmed by external rounds, offers to purchase, IPOs, and public investments.

CIP recorded a net income of $254.4 million, compared to a net loss of $83.5 million last year, due to a higher net fair value appreciation on investments resulting primarily from public investments.

CAP net loss

CAP recorded a net loss of $315.5 million mainly attributable to the provision for expected credit losses and operating and administrative expenses, which largely represents the higher risk of this portfolio and the costs incurred in the start-up phase of this new portfolio.

Net income attributable to non-controlling interests was $2.2 million in fiscal 2021 ($1.5 million in net income from Growth & Transition Capital and $0.7 million from Venture Capital), compared to net loss of $25.0 million in fiscal 2020 ($0.8 million in net loss from Growth & Transition Capital and $24.2 million in net loss from Venture Capital). The increase in net income attributable to non-controlling interest was mainly due to higher net change in unrealized appreciation on investments.

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

	2021	2020	2019	2018	2017
Financing	**733.1**	32.1	621.3	613.7	450.7
Advisory Services	**(39.4)**	(46.8)	(49.8)	(51.0)	(45.8)
Growth & Transition Capital	**114.8**	(32.9)	73.4	71.2	44.6
Venture Capital	**902.5**	(86.9)	194.2	159.3	5.2
Capital Initiative Programs	**254.4**	(83.5)	46.5	25.1	10.1
Core net income (loss)	**1,965.4**	(218.0)	885.6	818.3	464.8
Credit Availability Program	**(315.5)**	–	–	–	–
Net income (loss)	**1,649.9**	(218.0)	885.6	818.3	464.8
Net income (loss) attributable to:					
BDC's shareholder	**1,647.7**	(193.0)	878.5	775.0	466.0
Non-controlling interests	**2.2**	(25.0)	7.1	43.3	(1.2)
Net income (loss)	**1,649.9**	(218.0)	885.6	818.3	464.8

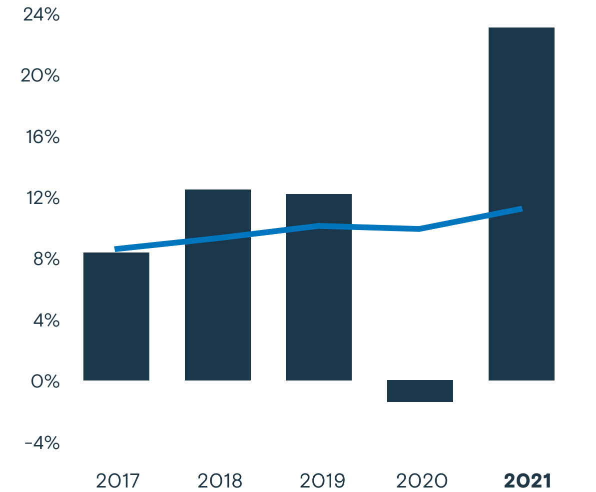
Adjusted return on common equity

BDC's adjusted return on common equity (ROE) was 22.9% in fiscal 2021, higher than the 10-year moving average of 11.2%, as a result of higher net income in fiscal 2021.

Consolidated comprehensive income (loss)

BDC reported a consolidated comprehensive income of $1.6 billion for fiscal 2021, compared to consolidated comprehensive loss of $125.0 million last year. Fiscal 2021 consolidated comprehensive income comprised $1.6 billion in consolidated net income and $38.3 million in other comprehensive loss. The other comprehensive loss for the year was mostly due to the remeasurement loss on the net defined benefit asset or liability of $43.1 million, compared to a gain of $91.6 million in fiscal 2020. For the most part, this loss was caused by lower discount rates used to value the net defined benefit liability, offset by higher returns on pension plan assets. For further details, refer to Note 19—*Net Defined Benefit Asset or Liability* to the Consolidated Financial Statements.

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



	2017	2018	2019	2020	2021
Adjusted ROE[1]	8.3%	12.4%	12.1%	(1.4%)	**22.9%**
Adjusted ROE—10-year moving average	8.6%	9.3%	10.1%	9.9%	**11.2%**

(1) ROE is calculated based on equity attributable to BDC's shareholder (see the glossary on page 150 for a detailed definition).

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

	2021	2020	2019	2018	2017
Net income (loss)	**1,649.9**	(218.0)	885.6	818.3	464.8
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	**6.1**	2.5	7.0	(3.6)	(1.7)
Net change in unrealized gains (losses) on cash flow hedges	**(1.3)**	(1.1)	1.3	(0.1)	0.6
Total items that may be reclassified subsequently to net income	**4.8**	1.4	8.3	(3.7)	(1.1)
Items that will not be reclassified to net income					
Remeasurements of net defined benefit asset or liability	**(43.1)**	91.6	(76.2)	(36.8)	72.8
Other comprehensive income (loss)	**(38.3)**	93.0	(67.9)	(40.5)	71.7
Total comprehensive income (loss)	**1,611.6**	(125.0)	817.7	777.8	536.5
Total comprehensive income (loss) attributable to:					
BDC's shareholder	**1,609.4**	(100.0)	810.6	734.5	537.7
Non-controlling interests	**2.2**	(25.0)	7.1	43.3	(1.2)
Total comprehensive income (loss)	**1,611.6**	(125.0)	817.7	777.8	536.5

Performance against objectives

The consolidated net income of $1.6 billion was significantly higher than the consolidated net loss of $37.7 million established in the corporate plan. All business lines, except for Financing, achieved higher results than planned.

Core performance against objectives

Financing's net income of $733.1 million was lower by $96.3 million compared to corporate plan, primarily due to a higher-than-expected provision for expected credit losses related to COVID-19.

Advisory Services' net loss of $39.4 million was $8.9 million lower than expected as a result of higher revenue and lower-than-anticipated operating and administrative expenses, offset by higher delivery expenses.

Growth & Transition Capital's net income of $114.8 million also contributed to the positive variance of $86.9 million compared to the corporate plan objective. The positive variance was mainly driven by higher-than-expected net change in unrealized appreciation on investments and net revenue on investments.

Both Venture Capital's and Capital Incentive Programs' net income were significantly higher than expected (favourable variances of $973.7 million and $285.7 million respectively), mainly due to a higher-than-anticipated net fair value appreciation on investments.

CAP performance against objectives

CAP's net loss of $315.5 million was smaller than the net loss of $744.2M projected in the corporate plan, primarily due to a lower provision for expected credit losses, offset by lower interest income.

Financing

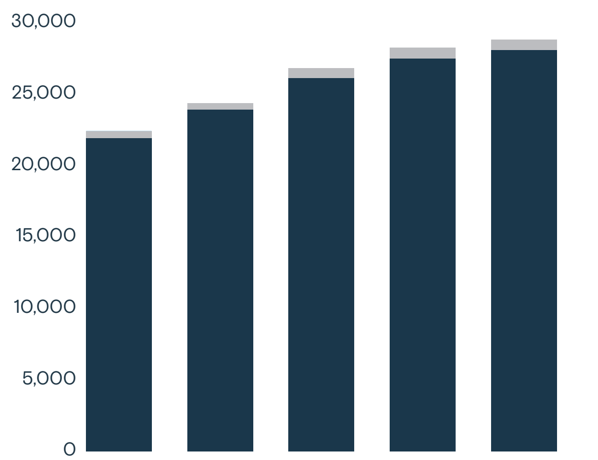
Financing provides term lending to SMEs at each stage of their business journey and helps them improve their competitiveness. BDC also works closely with other financial institutions to increase credit availability in the market through co-lending, syndicated loans and indirect financing.

BDC continued to automate processes and use data analytics, dynamic electronic forms and artificial intelligence to evolve our digital lending platform, better anticipate entrepreneur needs and provide them with more insightful advice.

Financing portfolio

The financing portfolio comprises mainly loans and asset-backed securities (ABS), totalling $28.6 billion, net of the allowance for expected credit losses of $1.3 billion.

Financing portfolio
as at March 31 ($ in millions)

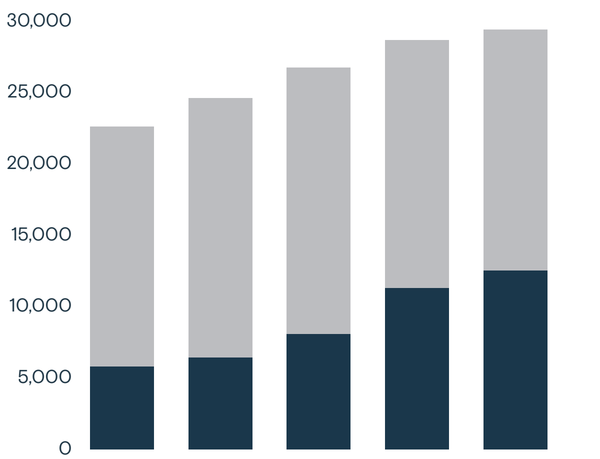


	2017	2018	2019	2020	**2021**
Loan portfolio[1]	21,752	23,728	25,916	27,273	**27,877**
Asset-backed securities portfolio	518	473	700	778	**733**
Subordinate financing portfolio	–	10	12	12	**17**
Total Financing portfolio	22,270	24,211	26,628	28,063	**28,627**

(1) Net of allowance for expected credit losses of $1.3 billion.

Financing's loan portfolio, before allowance for expected credit losses, increased by 2.5% from $28.5 billion a year ago to $29.2 billion as at March 31, 2021, as compared to 7.3% as at March 31, 2020. The growth of the loan portfolio is lower in fiscal 2021 mainly as a result of the shift in volume from our core activities to the new CAP segment. The closing loan portfolio comprised $28.1 billion in performing loans and $1.1 billion in impaired loans. As at March 31, 2021, 57.4% of the loan portfolio was composed of floating-rate loans, lower than the fiscal 2020 level of 60.5%, reflecting an increase in demand for fixed-rate loans.

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



	2017	2018	2019	2020	**2021**
Fixed-rate loan portfolio	5,739	6,371	8,002	11,234	**12,438**
Floating-rate loan portfolio	16,710	18,062	18,543	17,238	**16,755**
Total loan portfolio	22,449	24,433	26,545	28,472	**29,193**

Financing results

Financing recorded a net income of $733.1 million for the year, compared to a net income of $32.1 million in fiscal 2020. The favourable variance with last year is driven by lower provision for expected credit losses, lower operating and administrative expenses and higher net interest income.

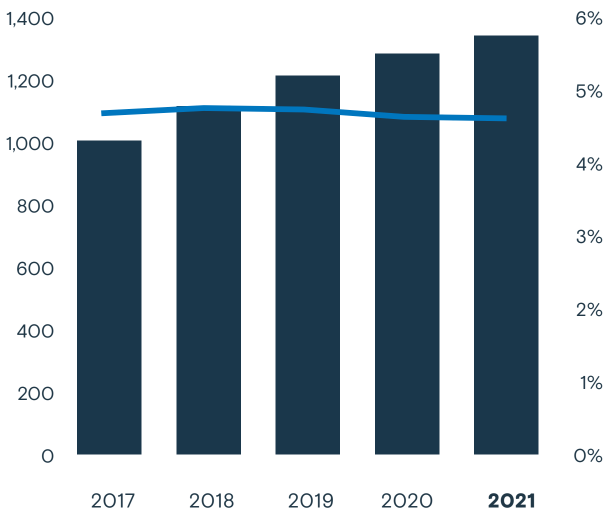
Net interest and fee and other income

Net interest income reflects interest income less interest expense on borrowings. Net interest income reached $1,360.1 million in fiscal 2021, compared to $1,300.6 million in fiscal 2020. The increase of $59.5 million was primarily the result of growth in the fixed rate portfolio. The net interest income margin, which is the ratio of net interest income to the average loan portfolio, slightly decreased from 4.58% in fiscal 2020 to 4.56% in fiscal 2021, reflecting a decrease in interest rates.

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

	2021	2020
Net interest income	**1,360.1**	1,300.6
Fee and other income	**24.1**	22.7
Provision for expected credit losses	**(262.0)**	(772.5)
Net change in unrealized appreciation (depreciation) of investments	**(4.5)**	1.7
Net realized gains (losses) on investments	**(0.3)**	0.0
Net gains (losses) on other financial instruments	**1.0**	0.2
Net foreign exchange gains (losses)	**(4.0)**	(2.5)
Income before operating and administrative expenses	**1,114.4**	550.2
Operating and administrative expenses	**381.3**	518.1
Net income from Financing	**733.1**	32.1

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



	2017	2018	2019	2020	**2021**
Net interest income	1,019.2	1,131.0	1,229.4	1,300.6	**1,360.1**
As a % of average Financing portfolio	4.63%	4.70%	4.68%	4.58%	**4.56%**

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

	2021	2020
Net interest income	**4.6%**	4.6%
Fee and other income	**0.1%**	0.1%
Provision for expected credit losses	**(0.9%)**	(2.7%)
Income before operating and administrative expenses	**3.8%**	2.0%
Operating and administrative expenses	**1.3%**	1.8%
Net income from Financing	**2.5%**	0.2%

Provision for expected credit losses

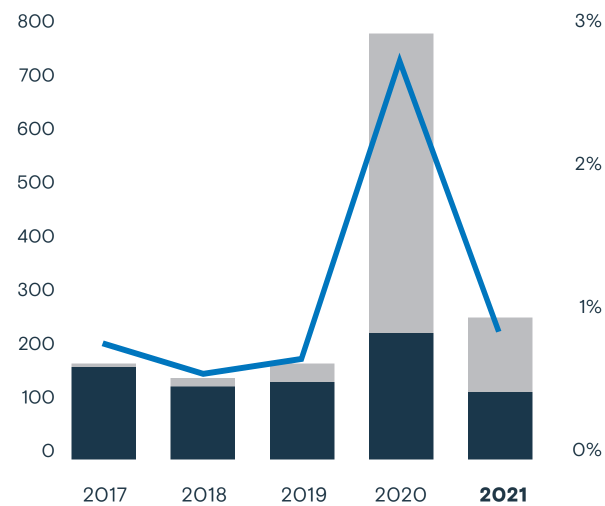
The provision for expected credit losses (ECL) is the amount charged to income to maintain the total allowance at a level considered adequate to absorb the credit losses expected in the portfolio at the statement of financial position date. The ECL model calculates a probability-weighted estimate that incorporates forward-looking information representing three macro-economic scenarios.

In fiscal 2021, Financing recorded a provision for expected credit losses of $262.0 million compared to $772.5 million in fiscal 2020, representing a decrease of $510.5 million. The provision for expected credit losses on performing loans was $133.8 million, compared to $538.6 million in fiscal 2020.

The provision for expected credit losses on impaired loans was $128.2 million compared to $233.9 million in fiscal 2020. A significant factor influencing the allowance on impaired loans is the volume of loans that were downgraded from performing to impaired status. When financial conditions deteriorate, more loans go into default. We then classify them as impaired and record an amount equal to the net exposure in the allowance for expected credit losses on impaired loans. The percentage of these downgrades decreased to 2.2% of the opening performing portfolio in fiscal 2021, compared to 3.1% for fiscal 2020, whereas the provision for expected credit losses on impaired loans decreased to 0.4% of the average portfolio.

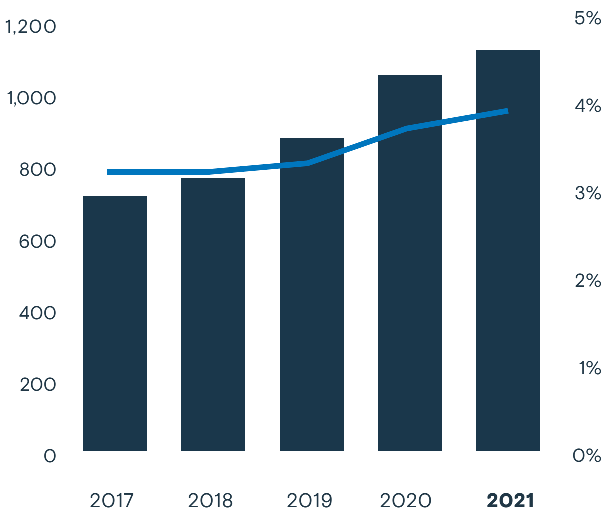
BDC closely manages the $1.1 billion in impaired loans, which represented 3.9% of the total portfolio on March 31, 2021, higher than the 3.7% on March 31, 2020.

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



	2017	2018	2019	2020	**2021**
Impaired	173.5	138.5	146.2	233.9	**128.2**
Performing	6.0	15.0	33.7	538.6	**133.8**
Provision for expected credit losses on loans	179.5	153.5	179.9	772.5	**262.0**
As a % of average loan portfolio	0.8%	0.6%	0.7%	2.7%	**0.9%**

Impaired portfolio
as at March 31 ($ in millions)

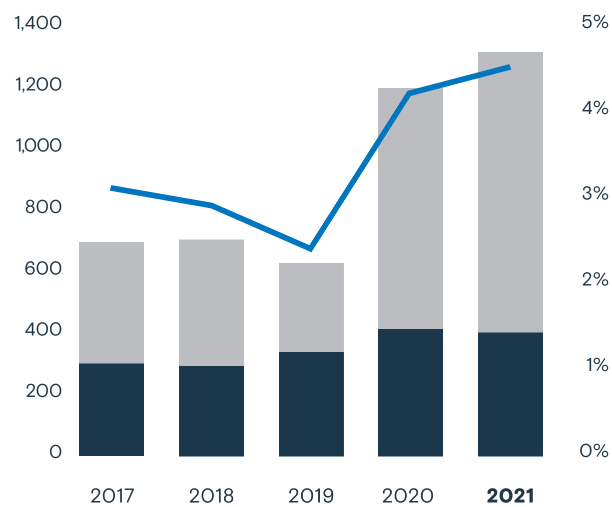


	2017	2018	2019	2020	**2021**
Impaired portfolio	718.3	770.6	882.8	1,061.6	**1,130.6**
Impaired portfolio as a % of total loan portfolio	3.2%	3.2%	3.3%	3.7%	**3.9%**

The total allowance for expected credit losses increased to $1.3 billion as at March 31, 2021, compared to $1.2 billion in fiscal 2020. The total allowance represented 4.5% of the total loans outstanding, higher than the 4.2% recorded last year as a result of a $127.8 million increase in the allowance on the performing portfolio offset by a $11.4 million decrease in the allowance on the credit impaired portfolio.

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

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



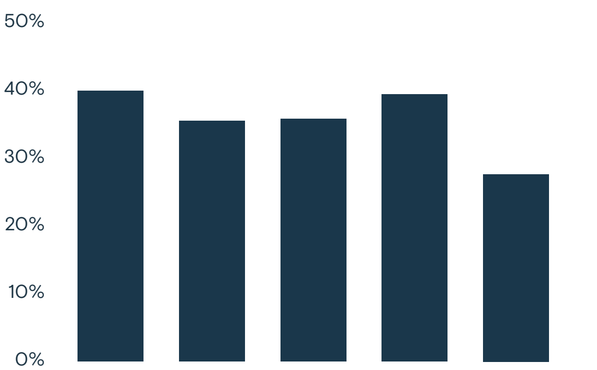
	2017	2018	2019	2020	**2021**
Impaired	300.9	293.6	338.7	414.7	**403.3**
Performing	396.0	411.0	290.5	784.5	**912.3**
Total allowance	696.9	704.6	629.2	1,199.2	**1,315.6**
Total allowance as a % of total loan portfolio	3.1%	2.9%	2.4%	4.2%	**4.5%**

Operating and administrative expenses
Operating and administrative expenses were $381.3 million in fiscal 2021, lower than the $518.1 million recorded last year.

As a percentage of the average portfolio, operating and administrative expenses were 1.3%, compared to the 1.8% recorded in fiscal 2020, reflecting recharges of costs to the CAP segment as financing activities shifted to support CAP initiatives.

Operational efficiency
Over the years, BDC has made a concerted effort to achieve efficiencies while fulfilling its role as a development bank and implementing government priorities. BDC carefully manages operating expenses, by identifying and gaining efficiencies, and by improving its efficiency ratio, that is, the expenses incurred to earn each dollar of revenue. A lower ratio indicates improved efficiency. The Financing efficiency ratio improved to 27.5% in 2021 from 39.2% in 2020. The decrease is primarily explained by recharges to the CAP segment to support CAP initiatives.

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



2017	2018	2019	2020	**2021**
39.7%	35.3%	35.6%	39.2%	**27.5%**

(1) For the definition of efficiency ratio, refer to the Glossary on page 150.

Performance against objectives
Financing's net income was $96.3 million lower than planned, mainly due to a higher-than-anticipated provision for expected credit losses offset by higher-than-anticipated net interest income and lower-than-anticipated operating and administrative expenses.

Net interest and fee and other income was $33.3 million higher than the $1,350.9 million anticipated, mainly due to higher average portfolio, offset by a slight decrease in margin. Total operating and administrative expenses of $381.3 million were $14.4 million lower than the corporate plan objective. This is mainly due to recharges to the CAP segment.

Financing's loan and ABS portfolios at the end of fiscal 2021, net of allowance for expected credit losses, stood at $28.6 billion, which is $0.7 billion lower than the corporate plan objective of $30.2 billion. Total loan acceptances for the year were $5.2 billion, which is $1.2 billion higher than the corporate plan objective.

Advisory Services

BDC invests in helping Canadian SMEs grow, innovate, and become more competitive by providing high-value advisory services at a price they can afford. These services include a variety of solutions for both smaller and larger companies, free online educational content and a program targeting high-growth firms. A BDC study[1] confirms that our advisory services have a long-lasting impact on entrepreneurs and the national economy. Used together, financing and advisory services have an even stronger impact.

Advisory Services results
The offerings of Advisory Services are an ongoing investment in entrepreneurs. In response to COVID-19, several tools were deployed by the Advisory Services team to support entrepreneurs during the crisis, such as 10,963 free coaching hours, but demand for advisory services remained low as entrepreneurs were impacted by the pandemic. However, activities began ramping up in the second half of the fiscal year and BDC Advisory Services delivered over 1,030 advisory mandates during fiscal 2021, efficiently generating impact and supporting both smaller and larger Canadian SMEs.

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

Advisory Services' net contracts signed reached $17.8 million in fiscal 2021 compared to $30.7 million last year. Advisory Services recorded a net loss of $39.4 million in fiscal 2021, compared to a net loss of $46.8 million in fiscal 2020. Advisory Services' revenues of $21.0 million in fiscal 2021 were lower than the $29.2 million recorded last year. These results reflect the decrease in demand for consulting mandates by entrepreneurs weathering the economic downturn resulting from the pandemic. Operating and administrative expenses of $48.4 million were $9.6 million lower compared to those recorded in fiscal 2020, mainly due to recharges to the CAP segment.

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

	2021	2020
Revenue	**21.0**	29.2
Delivery expenses[1]	**12.0**	18.0
Gross operating margin	**9.0**	11.2
Operating and administrative expenses	**48.4**	58.0
Net loss from Advisory Services	**(39.4)**	(46.8)

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

Performance against objectives

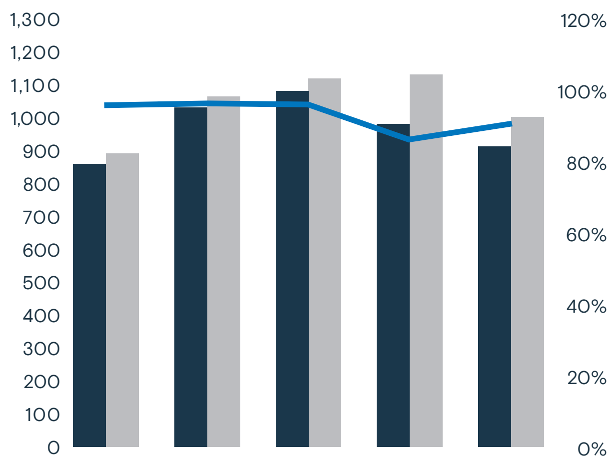
For fiscal 2021, the results for Advisory were $8.9 million higher than the net loss of $48.3 million estimated in the corporate plan. Revenues were strong at $21.0 million, higher than the corporate plan objective of $11.6 million and operating and administrative expenses were lower than the corporate plan.

Growth & Transition Capital

Growth & Transition Capital caters to growing businesses, especially high-growth firms with strong management but typically lacking sufficient tangible assets to offer as collateral. BDC offers higher risk solutions (cash flow, mezzanine, quasi-equity) to allow entrepreneurs to execute their growth and succession plans while limiting their ownership dilution.

Growth & Transition Capital investment portfolio
GTC's subordinate financing investment portfolio at cost decreased by 11.4% to $1,003.5 million in fiscal 2021 reflecting a decrease in the level of acceptances due to lower demand for growth and transition capital financing as entrepreneurs focused on rebuilding their working capital and volumes shifted to the CAP segment. The fair value as a percentage of cost increased from 86.7% to 91.1% primarily due to the partial reversal of fair value depreciation taken in fiscal 2020 due to the impact of economic uncertainty brought on by the COVID-19 pandemic.

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



	2017	2018	2019	2020	**2021**
Fair value	860.4	1,032.7	1,082.3	982.0	**913.9**
Cost	892.9	1,066.1	1,120.4	1,132.7	**1,003.5**
Fair value as % of cost	96.4%	96.9%	96.6%	86.7%	**91.1%**

Growth & Transition Capital results

Growth & Transition Capital recorded a net income of $114.8 million for the year, compared to a net loss of $32.9 million in fiscal 2020. The net income included an amount of $1.5 million attributable to non-controlling interests in fiscal 2021, compared to $0.8 million of net loss last year. The favourable variance from last year was mainly driven by higher net change in unrealized appreciation on investments due to partial reversal of fair value depreciation taken in fiscal 2020 due to the impact of economic uncertainty brought on by the COVID-19 pandemic.

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

	2021	2020
Net revenue on investments	**92.7**	115.9
Net change in unrealized appreciation (depreciation) of investments	**61.2**	(106.0)
Net foreign exchange gains (losses)	**(2.7)**	0.4
Income before operating and administrative expenses	**151.2**	10.3
Operating and administrative expenses	**36.4**	43.2
Net income (loss) from Growth & Transition Capital	**114.8**	(32.9)
Net income (loss) attributable to:		
BDC's shareholder	**113.3**	(32.1)
Non-controlling interests	**1.5**	(0.8)
Net income (loss) from Growth & Transition Capital	**114.8**	(32.9)

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

	2021	2020
Net revenue on investments	**8.6%**	10.5%
Net change in unrealized appreciation (depreciation) of investments	**5.7%**	(9.6%)
Net foreign exchange gains (losses)	**(0.2%)**	0.0%
Income before operating and administrative expenses	**14.1%**	0.9%
Operating and administrative expenses	**3.4%**	3.9%
Net income (loss) from Growth & Transition Capital	**10.7%**	(3.0%)
Net income (loss) attributable to:		
BDC's shareholder	**10.6%**	(2.9%)
Non-controlling interests	**0.1%**	(0.1%)
Net income (loss) from Growth & Transition Capital	**10.7%**	(3.0%)

Net revenue on investments, comprising net interest income, net realized gains on investments, as well as fee and other income, reached $92.7 million, $23.2 million lower than in fiscal 2020. The decrease was mainly due to lower interest income and lower fee and other income arising from lower portfolio size, which in turn was caused by the lower demand for business growth and transition financing as entrepreneurs focused on rebuilding their working capital and by volumes shifting to the CAP segment. Refer to Note 25—*Segmented Information* for more details.

In fiscal 2021, Growth & Transition Capital recorded a net change in unrealized appreciation of investments of $61.2 million compared to a net change in unrealized depreciation of investments of $106.0 million last year. The higher net change in unrealized appreciation of investments this fiscal was due to a higher net fair value appreciation on investments, following improved economic conditions versus last year and economic uncertainty brought on by the pandemic.

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

	2021	2020
Net fair value appreciation (depreciation)	**24.9**	(120.4)
Reversal of net fair value depreciation (appreciation) due to realized income and write offs	**36.3**	14.4
Net change in unrealized appreciation (depreciation) of investments	**61.2**	(106.0)

Operating and administrative expenses decreased by $6.8 million from last year. As a percentage of the average portfolio, operating and administrative expenses decreased to 3.4% compared to 3.9% in fiscal 2020. The decrease was mainly due to higher recharges to the CAP segment.

Performance against objectives
Growth & Transition Capital recorded a net income of $114.8 million in fiscal 2021, which represents a favourable variance of $86.9 million from net income of $27.9 million projected in the corporate plan. The favourable variance in net income was attributable to the net change in unrealized appreciation of investments, which was $72.2 million higher than planned, and higher net revenue on investments which generated a positive variance of $19.1 million compared to the corporate plan.

Acceptances reached $124.4 million for the year, which is $20.6 million lower than the corporate plan objective of $145.0 million.

Venture Capital

Venture Capital actively supports the development of a healthy and vibrant venture capital (VC) ecosystem to foster innovation in Canada. BDC plays an important role by helping Canadian innovators launch and grow technology-focused businesses and commercialize their innovations. It backs approximately 800 companies through direct investments in businesses and indirect investments in 100 VC funds. VC's efforts to make Canadian venture capital a financially viable and attractive asset class for private sector investors have helped propel the market forward.

Direct investment
Since 2012, BDC has been managing several direct investment internal funds to foster and finance innovation in many sectors including but not limited to: information and communications technology; healthcare; industrial clean technology; energy; materials and agriculture.

Our $200 million Women in Technology (WIT) fund aims to deliver on a dual mandate of supporting tech businesses led by women while helping to create a vibrant support ecosystem for women tech entrepreneurs.

BDC is also a leader in reinforcing the early-stage innovation ecosystem and filling the gap in seed funding with strategic investments in other ecosystem-building activities.

During fiscal 2021, BDC launched two new internal funds, a $250-million Growth Equity follow-on internal fund and a Canada first $160-million Intellectual Property development financing envelope to support intellectual property (IP) rich companies in Canada.

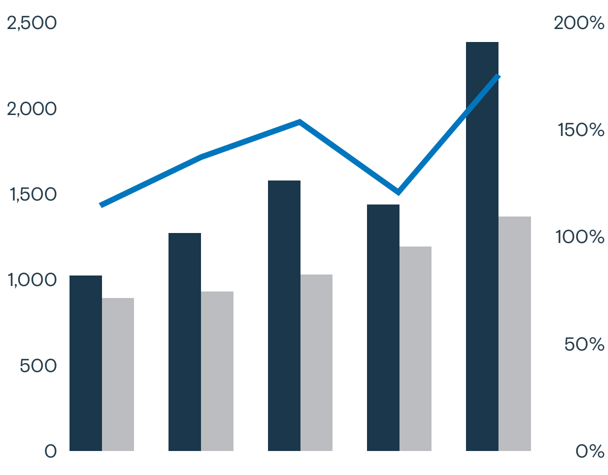
Indirect investment
The goal of BDC's indirect investing strategy is to help create a thriving ecosystem of high-performing fund managers, while generating positive results. To achieve this mandate, BDC supports a mix of emerging and established managers, and focuses on helping top-performing funds evolve into globally competitive mature funds over time. BDC indirectly supports 750 tech firms through investments in 100 funds. The performance of BDC's own portfolio of fund investments—a good proxy for Canadian industry performance—has improved significantly in recent years, closing the gap with the more mature U.S. VC industry.

Venture Capital portfolio
The fair value of the portfolio increased from $1,428.1 million in fiscal 2020 to $2,368.1 million this year. The fair value of the total portfolio as a percentage of cost was 174.3% as at March 31, 2021, up from 120.5% last year, driven by the fair value appreciation of investments.

This segment's investment portfolio is composed of venture capital investments, which comprises $1,247.0 million in direct investments and $906.0 million in indirect investments in 100 funds, and the subordinate financing investments of $215.1 million, which was included in the GTC segment prior to the changes in reporting structure.

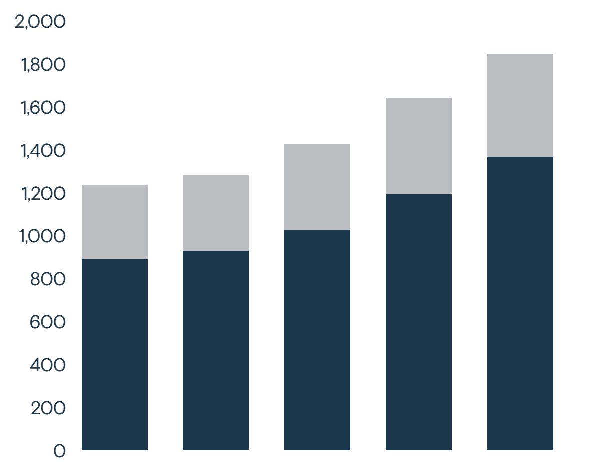
The total Venture Capital commitment to investees, which represents the portfolio outstanding at cost plus undisbursed commitments, amounted to $1,838.0 million as at March 31, 2021. This represents $882.6 million committed to direct investments and $955.4 million to private sector investment funds, for an increase of 12.4% compared to last year.

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



	2017	2018	2019	2020	**2021**
Fair value	1,015.7	1,263.1	1,566.2	1,428.1	**2,368.1**
Portfolio (cost)	884.9	922.9	1,021.4	1,185.4	**1,358.9**
Fair value as % of cost	114.8%	136.9%	153.3%	120.5%	**174.3%**

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



	2017	2018	2019	2020	**2021**
Portfolio (cost)	884.9	922.9	1,021.4	1,185.4	**1,358.9**
Undisbursed commitment	345.1	351.3	395.5	449.6	**479.1**
Total commitment to Venture Capital investees	1,230.0	1,274.2	1,416.9	1,635.0	**1,838.0**

Venture Capital results

Venture Capital recorded a net income of $902.5 million, compared to a net loss of $86.9 million last year. The favourable variance from last year was mainly driven by higher net change in unrealized appreciation on investments, offset by lower net revenue on investments and higher net foreign exchange losses.

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

	2021	2020
Net revenue (loss) on investments	**177.8**	266.4
Net change in unrealized appreciation (depreciation) of investments	**836.2**	(346.4)
Net foreign exchange gains (losses)	**(69.8)**	37.0
Income (loss) before operating and administrative expenses	**944.2**	(43.0)
Operating and administrative expenses	**41.7**	43.9
Net income (loss) from Venture Capital	**902.5**	(86.9)
Net income (loss) attributable to:		
BDC's shareholder	**901.8**	(62.7)
Non-controlling interests	**0.7**	(24.2)
Net income (loss) from Venture Capital	**902.5**	(86.9)

The net revenue on investments, which comprised net realized gain on investments, write-offs, and other income, was $177.8 million, compared to $266.4 million recorded in fiscal 2020. The decrease of $88.6 million in net revenue was due to lower net realized gains from sales of investments and higher write-offs. Proceeds received from divestiture of investments amounted to $346.8 million in fiscal 2021, compared to $430.8 million in fiscal 2020. Fiscal 2021 was a successful year in terms of divestitures, BDC sold several of its investments to public companies, which is in line with our strategy of supporting the best performing Canadian companies with the technology and talent to assume leadership at the global level.

VC recorded a net change in unrealized appreciation of investments of $836.2 million, compared to a net change in unrealized depreciation of investments of $346.4 million last year.

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

	2021	2020
Net fair value appreciation (depreciation)	**922.9**	(117.7)
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	**(86.7)**	(228.7)
Net change in unrealized appreciation (depreciation) of investments	**836.2**	(346.4)

Direct investments, recorded a net fair value appreciation of $608.7 million, and indirect investments recorded fair value appreciation of $314.2 million in fiscal 2021 for a total net fair value appreciation of $922.9 million, mainly due to financing rounds with new external investors, offers to purchase, IPOs in both direct and indirect investments underlying portfolios.

Net unrealized foreign exchange losses of $69.8 million on investments were due to foreign exchange fluctuations in the U.S. dollar. BDC uses foreign exchange contracts to hedge U.S. dollar proceeds, following the occurrence of a liquidity event under which a venture capital investment is monetized as cash.

Operating and administrative expenses were $41.7 million, lower than the $43.9 million recorded last year, mainly due to recharges to the CAP segment.

Venture Capital's net income attributable to non-controlling interests was $0.7 million for the year, $24.9 million higher than last year. The increase in non-controlling interests was due to higher net fair value appreciation.

Performance against objectives
Venture Capital recorded a net income of $902.5 million in fiscal 2021, compared to a net loss of $71.2 million in the corporate plan. The favourable variance of $973.7 million is due to higher-than-anticipated net change in unrealized appreciation on investments and higher net revenue on investments. It was offset by higher net foreign exchange losses on investments.

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

Capital Incentive Programs

Following the changes to BDC's reporting structure, the Capital Incentive Programs segment, previously named the Venture Capital Incentive Programs (VCIP) segment, now includes Venture Capital Action Plan (VCAP), Venture Capital Catalyst Initiative (VCCI), and Cleantech Practice.

VCAP and VCCI

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

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

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

Through VCCI, the government committed $371 million to four private sector funds of funds, five alternative model VC funds and three cleantech funds. This capital is expected to leverage over $1.5 billion in private sector capital and $57.1 million from provincial governments, bringing the total venture capital raised under VCCI to $1.9 billion.

Cleantech Practice

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

Capital Incentive Programs portfolio

As at March 31, 2021, the total portfolio stood at $963.2 million ($570.8 million from VCAP, $89.6 million from VCCI and $302.8 million from Cleantech Practice), compared to $539.1 million last year ($399.6 million from VCAP, $19.7 million from VCCI, and $119.8 million from Cleantech Practice). The increase was mainly due to higher fair value appreciation on investments.

Capital Incentive Programs results

CIP recorded a net income of $254.4 million, mostly as a result of a net change in unrealized appreciation of investments of $243.3 million related to the increase in fair value of the underlying funds. Operating and administrative expenses were $5.4 million in fiscal 2021, slightly lower than last year.

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

	2021	2020
Net revenue on investments	**18.6**	11.9
Net change in unrealized appreciation (depreciation) of investments	**243.3**	(90.6)
Net foreign exchange gains (losses)	**(2.1)**	1.2
Income (loss) before operating and administrative expenses	**259.8**	(77.5)
Operating and administrative expenses	**5.4**	6.0
Net income (loss) from Capital Incentive Programs	**254.4**	(83.5)

Performance against objectives

Net income was $254.4 million, $285.7 million higher than anticipated, largely due to a higher-than anticipated net change in unrealized appreciation of investments.

Credit Availability Program

All our COVID-19 measures are grouped under the Credit Availability Program (CAP) segment. Through our relief measures, we extended our reach to tens of thousands of entrepreneurs who had not previously been clients and increased our support for existing clients. This action has been taken in concert with the federal government and the private sector to help entrepreneurs through the crisis.

Credit Availability Program portfolio

As at March 31, 2021, CAP's loan portfolio, net of allowance for expected credit loses, stood at $3.0 billion. CAP's investment portfolio stood at $169.0 million ($18.1 million in subordinate financing portfolio and $150.9 million in venture capital portfolio).

Credit Availability Program portfolio
as at March 31 ($ in millions)

	2021	2020
Loan portfolio[1]	3,028.6	–
Subordinate financing investments	18.1	–
Venture Capital investments	150.9	–
Total CAP portfolio	**3,197.6**	–

(1) Net of allowance of $210.0 million

The closing loan portfolio comprised $3.2 billion in performing loans and $19.7 million in impaired loans. As at March 31, 2021, 94.3% of the loan portfolio was composed of floating-rate loans.

Credit Availability Program loan portfolio
as at March 31 ($ in millions)

	2021	2020
Fixed-rate loan portfolio	191.7	–
Floating-rate loan portfolio	3,046.9	–
Total loan portfolio	**3,238.6**	–

Credit Availability Program results

CAP recorded a net loss of $315.5 million for fiscal 2021, mainly driven by the provision for expected credit losses on loans of $245.2 million reflecting the higher risk of this portfolio. Operating and administrative expenses stood at $148.8 million and are explained by the costs incurred in the start-up phase of this new portfolio, resulting mainly from employees' efforts to deploy CAP initiatives and handle the very high demand for financing. The level of recharges is expected to decrease over time as the portfolio stabilizes.

Credit Availability Program
for the years ended March 31 ($ in millions)

	2021	2020
Net interest income	68.6	–
Fee and other income	11.1	–
Provision for expected credit losses	(245.2)	–
Net realized gains (losses) on investments	1.0	–
Net change in unrealized appreciation (depreciation) of investments	(0.1)	–
Net foreign exchange gains (losses)	(2.1)	–
Income (loss) before operating and administrative expenses	**(166.7)**	–
Operating and administrative expenses	148.8	–
Net loss from Credit Availability Program	**(315.5)**	–

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

	2021	2020
Net interest income	3.2%	–
Fee and other income	0.5%	–
Provision for expected credit losses	(11.3%)	–
Net realized gains (losses) on investments	0.0%	–
Net change in unrealized appreciation (depreciation) of investment	0.0%	–
Net foreign exchange gains (losses)	0.0%	–
Income (loss) before operating and administrative expenses	**(7.6%)**	–
Operating and administrative expenses	6.9%	–
Net loss from Credit Availability Program	**(14.5%)**	–

Provision for expected credit lossess
In fiscal 2021, CAP recorded a provision for expected credit losses of $245.2 million. The provision for expected losses on performing loans was $232.6 million, representing 10.7% of the average portfolio, and the provision on impaired loans was $12.6 million, representing 0.6% of the average portfolio.

Impaired loans of the CAP segment amounted to $19.7 million, representing 0.4% of the total portfolio.

Provision for expected credit losses on loans
for the year ennded March 31 ($ in millions)

	2021	2020
Impaired	**12.6**	–
Performing	**232.6**	–
Provision for expected credit losses on loans	**245.2**	–
As a % of average loan portfolio	**11.3%**	–

The total allowance for expected credit losses was $210.0 million, representing 6.5% of the total loans outstanding.

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

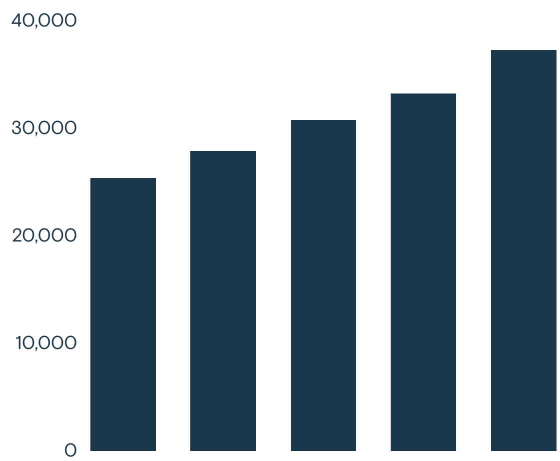
	2021	2020
Impaired	**10.9**	–
Performing	**199.1**	–
Total Allowance	**210.0**	–
Total Allowance as a % of loan portfolio	**6.5%**	–

Performance against objectives
CAP recorded a net loss of $315.5 million, which represents a favourable variance of $428.7 million compared to a net loss of $744.2 million projected in the corporate plan. The favourable variance is primarily due to lower than projected provision for expected credit losses, partially offset by lower than projected net interest income.

Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows

Total assets amounted to $37.1 billion, an increase of $4.0 billion from a year ago, largely due to a $3.6 billion increase in the loans portfolio, combined with a $1.4 billion increase in the investments portfolio. This was offset by a decrease of $1.0 billion in cash and cash equivalents. BDC received a capital injection from its shareholder of $7.5 billion in June 2020 to provide relief for Canadian entrepreneurs impacted by the spread of coronavirus (COVID-19), including the delivery of the Business Credit Availability Program (BCAP).

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



2017	2018	2019	2020	**2021**
25,317	27,809	30,656	33,153	**37,148**

At $30.9 billion (gross portfolio of $32.4 billion, net of a $1.5 billion allowance for expected credit losses), the loan portfolio represented BDC's largest asset. The gross loan portfolio has grown by 13.9% since March 31, 2020, reflecting an increase in the level of activity of CAP, which accounts for $3.2 billion in additional loans. BDC remained committed to actively supporting SMEs' needs and helping them improve competitiveness, while continuing to identify and address market gaps in financing across Canada.

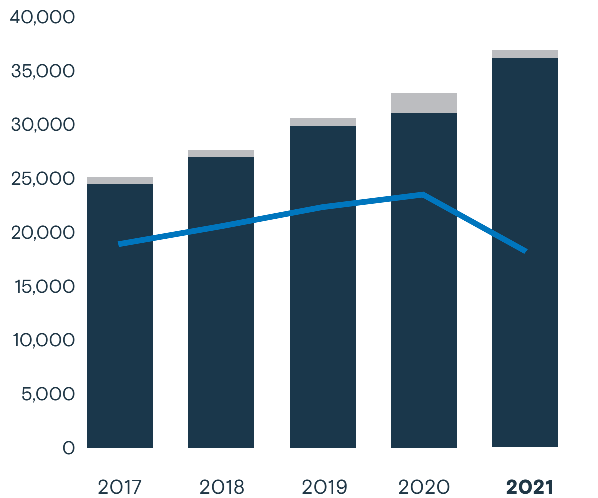
BDC's investment portfolios, which include the subordinate financing, venture capital and asset-backed securities portfolios, stood at $5.2 billion, compared to $3.7 billion as at March 31, 2020. Subordinate financing investments amounted to $1.5 billion as at March 31, 2021 compared to $1.2 billion as at March 31, 2020. Venture capital investments increased from $1.7 billion to $3.0 billion as at March 31, 2021 due to appreciation of fair value. The asset-backed securities portfolio stood at $733.3 million, compared to $777.8 million as at March 31, 2020.

Derivative assets of $4.9 million and derivative liabilities of $2.3 million reflect the fair value of derivative financial instruments as at March 31, 2021. Net derivative fair value increased by $6.4 million compared to the value as at March 31, 2020, primarily due to foreign exchange impact on forward contracts. BDC acquires derivative financial instruments to manage exposure to interest, currency and other market risks. BDC does not hold derivatives for speculative or trading purposes.

As at March 31, 2021, BDC recorded a net defined benefit asset of $4.8 million related to the registered pension plan, and a net defined benefit liability of $278.0 million for the other plans, for a total net defined benefit liability of $273.2 million. This represents an increase of $68.6 million compared to the total net defined benefit liability as at March 31, 2020, mostly as a result of remeasurement losses recorded during the year. For further information, refer to Note 19—*Net Defined Benefit Asset or Liability* to the Consolidated Financial Statements.

BDC holds cash and cash equivalents in accordance with its treasury risk policy. The Bank's liquidities, which ensure funds are available to meet BDC's cash outflows, totaled $800.5 million as at March 31, 2021, compared to $1.8 billion as at March 31, 2020. The decrease is primarily due to net disbursements for loans offset by cash flows provided by financing activities and repayment of short term notes of $6.0 billion.

Borrowings
as at March 31 ($ in millions)



	2017	2018	2019	2020	**2021**
Liquid assets	649	673	704	1,821	**801**
Portfolios[1]	24,448	26,917	29,797	31,013	**36,070**
Borrowings	18,977	20,619	22,395	23,569	**18,373**

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

As at March 31, 2021, BDC funded its portfolios and liquidities with borrowings of $18.4 billion and total equity of $18.0 billion. Borrowings comprised $13.3 billion in short-term notes and $5.1 billion in long-term notes.

For the year ended March 31, 2021, cash flow used by investing activities amounted to $219.7 million. Financing activities provided $2,301.7 million in cash flow, as BDC issued common shares totalling $7,503.0 million. Short-term notes in the amount of $6,019.8 million were repaid and long-term notes were issued for $835.0 million. Operating activities used $3,102.9 million in cash flows, mainly to support the growth of the loans portfolio. For further information, refer to the Consolidated Statement of Cash Flows on page 67.

Net defined benefit asset or liability

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

BDC's employer contributions to the registered pension plan totalled $23.8 million in fiscal 2021, compared to $27.5 million in fiscal 2020. BDC's best estimate of the contributions to be paid for fiscal 2022 is $42.7 million. For more information regarding BDC's defined benefit pension plan, refer to Note 1—*Act of Incorporation, Objectives and Operations of the Corporation* to the Consolidated Financial Statements.

Further to the directive received in December 2014 from the Governor in Council, BDC must ensure a 50:50 current service cost-sharing ratio between employee and employer. As at December 31, 2020, BDC reached a level of employer contribution that, although not exactly 50:50, only slightly exceeded 50% of the current service cost, and was administered in accordance with regulations and its funding policy.

BDC funds its registered pension plan in accordance with applicable federal pension legislation and actuarial standards of practice in Canada to ensure proper funding of employee benefit. As of December 31, 2020, the funded status of the registered pension plan was a going-concern ratio of 134% (with a surplus in excess of $464.1 million) and a wind-up/solvency ratio of 87.2%. Mandatory employer current service contribution holiday occurs whenever the going-concern ratio is above 125% and the wind-up/ solvency ratio is above 105%. Consequently, BDC will continue to contribute to the pension fund in future years, as prescribed by the applicable federal pension legislation.

Capital management

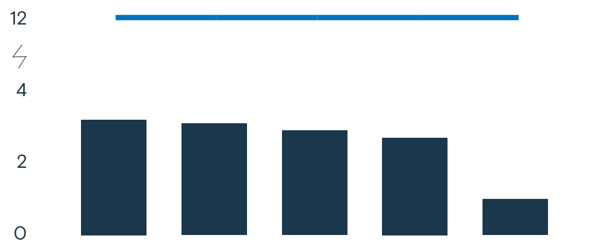
Statutory limitations

The *BDC Act* specifies that the aggregate of borrowings and contingent liabilities in the form of guarantees provided by BDC may not exceed 12 times its equity. This ratio excludes accumulated other comprehensive income. BDC's debt-to-equity ratio as at March 31, 2021, was 1.0:1, compared to 2.7:1 as at March 31, 2020, mostly due to capital injection to support the Credit Availability Program (CAP).

In addition, effective October 1, 2020, the Minister of Finance confirmed that the amount of paid-in capital, the contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments) must not at any time exceed $20.0 billion ($4.5 billion as at March 31, 2020) per an amendment to the *Business Development Bank of Canada Act*, 1995. The maximum amount was $4.5 billion prior to April 22, 2020 and $15.0 billion from April 22, 2020 to September 30, 2020. As at March 31, 2021, these amounts totalled $11.5 billion, compared to $4.0 billion as at March 31, 2020.

During the year, a $7.5 billion capital injection was received from the shareholder to support a series of measures BDC launched for Canadian businesses during the COVID-19 crisis including the delivery of the Credit Availability Program (CAP). In fiscal 2020, a $1.4 billion capital injection was received ($277.0 million for the deployment of the Cleantech Practice, $185.0 million for the Capital Incentive Programs and $944.0 million for CAP).

Debt-to-equity ratio
as at March 31



	2017	2018	2019	2020	**2021**
Actual	3.2	3.1	2.9	2.7	**1.0**
Statutory limit	12.0	12.0	12.0	12.0	**12.0**

Capital adequacy

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 risk appetite measures and changes in both the available capital definition as well as in the required capital quantification. The new framework was effective April 1, 2020.

BDC's capital management framework is based on its Internal Capital Adequacy Assessment Process (ICAAP), which is aligned with the Office of the Superintendent of Financial Institutions' guidelines and the Capital and Dividend Policy Framework for Financial Crown Corporations.

The key principles behind BDC's capital management framework are as follows:

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

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

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

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

To manage the $8.4 billion total capital injection received for CAP, BDC has established an internal structure where CAP, its related capital and any excess capital is maintained independently from BDC's core portfolio. BDC's core capital management framework excludes the Capital Incentive Programs (CIP) and CAP because these programs are managed by BDC under a specific capital allocation from the shareholder.

Available capital

Available capital is composed of equity attributable to BDC's shareholder (retained earnings and capital injections) and adjustments aligned with industry best practices. Modifications arising from the new Capital Management framework primarily relate to the allowance for expected credit losses addback to capital as prescribed in OSFI's Capital Adequacy Requirements under the Standardized Approach.

Required capital
BDC employs rigorous models to assess demand for capital arising from credit and investments, operational, business and market risk. Economic capital is a measure of risk used to determine the amount of capital required to ensure a financial institution's solvency given its risk profile.

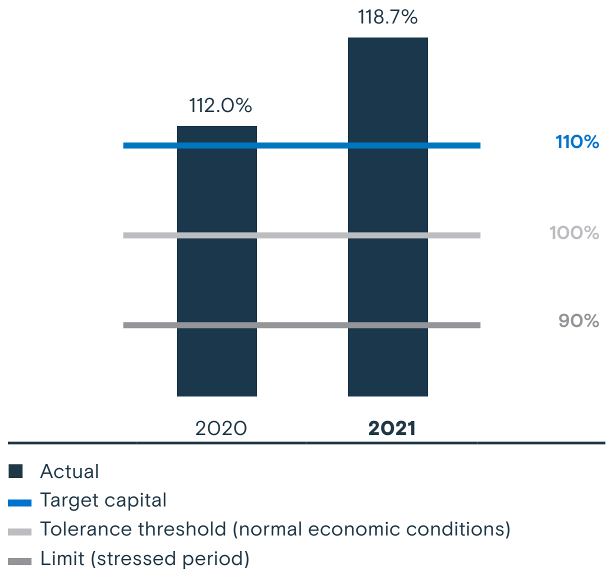
Economic capital models are developed based on advanced quantification methods and internal risk-based assumptions and take into account risk diversification benefits and both disbursed and undisbursed commitments. A key principle underlying the economic capital models is the establishment of a solvency level that is set at a credit rating of AA. Economic capital models are validated by a third party as per the model validation policy.

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

Management operating range
BDC's target capital level also factors in an operating range to mitigate the impact of unplanned capital volatility. It accounts for differences between planned and actual levels of activities, as well as other assumptions that are difficult to predict, and allows for capital to be managed close to a target level by mitigating unplanned required capital.

Internal capital ratio (applicable to BDC's core portfolio)
BDC's key measure for determining and assessing the adequacy of its capital status is its internal capital ratio, which is expressed as the level of available capital over the economic capital required. BDC's capital management framework establishes different management zones to closely monitor the internal capital ratio through a complete economic cycle, against a minimum limit (90%), a tolerance threshold in normal economic conditions (100%) and BDC's targeted internal capital ratio (110%). In normal economic conditions, BDC should maintain an internal capital ratio close to the target capital ratio of 110%.

Internal capital ratio[(1)]
as at March 31

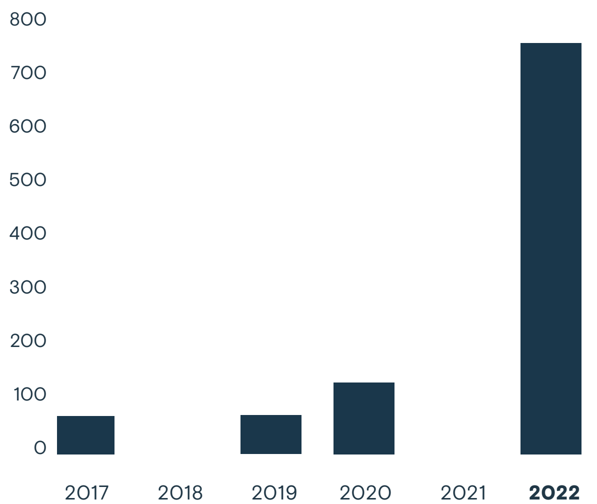


(1) Available capital as a percentage of economic capital required.

BDC's internal capital ratio, as at March 31, 2021, was 118.7%, above the target capital ratio of 110% and the ratio of 112.0% as at March 31, 2020. The increase in the internal capital ratio was mainly driven by the strong net income of $1,711.0 million incurred in fiscal 2021 from Core activities excluding CIP, compared to a net loss of $134.5 million recorded last year.

Dividends
BDC revised its dividend policy in fiscal 2017 to align with the dividend methodology included in the new Capital and Dividend Policy Framework for Financial Crown Corporations. Excess capital, calculated as the difference between available capital and the combination of capital demand and management operating range, is available for additional operational needs and/or dividend payments, subject to the discretion of the Board of Directors. The calculation excludes CIP and CAP.

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



	2017	2018	2019	2020	2021	**2022**
Common dividends declared[(1)]	68.6	0.0	69.7	128.4	0.0	**735.0**

(1) Based on previous year's performance

As of March 31, 2021, there was excess capital of $735.0 million ($104 million as of March 31, 2020 as per the new capital management framework and nil as per the previous capital management framework). As per BDC's Capital Management and Dividend Policy, on the date of approval of the fiscal 2021 Consolidated Financial Statements, a $735.0 million dividend was declared based on fiscal 2021 performance and no dividend was paid in fiscal 2021 based on fiscal 2020 performance.

Excess capital summary (BDC's core portfolio, excluding CAP)
($ in millions)

	New framework		Previous framework
	March 31, 2021	March 31, 2020	March 31, 2020
Equity attributable to BDC's shareholder	**18,004**	8,892	8,892
AOCI on cash flow hedges	**(2)**	(3)	(3)
Intangible assets, net of accumulated amortization	**(40)**	(42)	(42)
Net defined benefit asset	**(5)**	(42)	(42)
Adjustments for allowance for expected credit losses	**379**	370	240
Portion of equity attributable to CIP[(1)]	**(1,277)**	(1,023)	(1,023)
Portion of equity attributable to CAP	**(8,131)**	(944)	(944)
Adjustments to available capital	**(9,076)**	(1,684)	(1,814)
Total available capital (a)	**8,928**	7,208	7,078
Required capital (b)	**7,523**	6,434	6,563
Capital status (a-b)	**1,405**	774	515
Management operating range **(c)**	**670**	670	649
Excess capital available for dividends (a-b-c)	**735**	104	–
Internal capital ratio	**118.7%**	112.0%	130.8%

(1) Comparative figures for F2020 were reclassified to reflect the modifications made to the reportable segment structure. Comparative information relating to the portion of equity attributable to CIP were reclassified to include the equity attributable to the Cleantech Practice segment. Comparative information relating to the portion of equity attributable to Indigenous Growth Fund (IGF) was also reclassified to CIP.

(2) Comparative figures for F2020 were reclassified to be presented as per the new capital management framework.

Outlook for fiscal 2022

The worldwide COVID-19 pandemic and the widespread lockdowns to contain it, drove the global economy into a severe recession in 2020. The economy is poised to rebound strongly in fiscal 2022, despite some remaining challenges.

After declining by 5.4% in 2020, Canada GDP is expected to grow by 6.0% in calendar 2021. Even if the uncertainty over the health situation remains, most businesses and consumers have adapted to the various containment measures already.

The pace of vaccination campaigns suggests that a full reopening of the economy will be possible in the second half of the year. Given government supports and low interest rates, household and businesses are in a strong financial position to start spending and investing again once the economy reopens. Canada's growth will also benefit from a strong world demand for commodities. Commodity prices soared during the COVID-19 pandemic and should continue to increase in 2021 as economies across the world recover from the pandemic. However, limited supplies and labour shortages could hinder businesses' outlook.

As the economy gradually recovers, BDC will continue to help entrepreneurs through these difficult times. With the recovery being slowed down by a third wave of COVID-19 infections, and the extension of CAP into fiscal 2022 to continue supporting entrepreneurs impacted by the pandemic, we expect demand for core products to continue to be affected in fiscal 2022, albeit less so than in 2021.

BDC's consolidated net income is forecast to total $335 million in fiscal 2022. After reporting consolidated net income of $1,472.9 million in fiscal 2021, BDC expects net income to decrease in fiscal 2022, due mainly to higher provision for expected credit losses and lower net change in unrealized appreciation of investments.

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

Financing

Demand for liquidity remains high as entrepreneurs seek capital to cope with the COVID-19 pandemic. However, most entrepreneurs have ample access to liquidity due to government assistance programs, including BDC's CAP initiatives. Therefore, demand for BDC's regular products is expected to be higher in fiscal 2022 than it was in fiscal 2021, but lower than that reported in fiscal 2020.

Loan acceptances in fiscal 2022 are expected to reach $7.1 billion. Financing`s portfolio, before allowance for expected credit losses, is expected to grow by 6.2% to $31.0 billion in fiscal 2022.

Financing's net income is projected to reach $748.0 million in fiscal 2022. Provisions for expected credit losses on loans are expected to amount to $116.0 million, representing 0.4% of the average outstanding loan portfolio, down from the 0.9% recorded in fiscal 2021 mainly due to higher reversal of provisions on expected credit losses as the economy recovers. Financing's operating expenses as a percentage of the average portfolio are expected to increase from 1.3% to 1.7% as recharges to CAP are expected to decrease.

Advisory Services

The demand for advisory services is expected to remain low in fiscal 2022, as entrepreneurs will still be impacted by the pandemic. As a result, revenue from activities is forecast to be $22.0 million in fiscal 2022, resulting in a net loss of $52.0 million. Revenues generated by Advisory Services are not always sufficient to cover associated costs, but management considers these activities as an investment in the competitiveness of Canadian entrepreneurs and SMEs.

Growth & Transition Capital (GTC)
Market demand for Growth & Transition Capital's offerings is expected to remain low in fiscal 2022 due to the COVID-19 pandemic. During this period, most entrepreneur's liquidity needs will be met through government assistance programs.

Following a lower level of activity in fiscal 2021 compared to corporate plan, Growth & Transition Capital anticipates the volume of acceptances to increase to $240.0 million in fiscal 2022, compared to $124.4 million in fiscal 2021. The fair value of the portfolio is expected to be $874.0 million in fiscal 2022, lower than the $913.9 million recorded in fiscal 2021. Operating and administrative expenses are expected to increase in fiscal 2022, as some GTC employees were temporarily reassigned to help deploy CAP initiatives during fiscal 2021 and are expected to return to their regular assignments.

Following solid results in fiscal 2021, Growth & Transition Capital's net income is forecasted to reach $52.0 million in fiscal 2022. Net income is expected to be impacted by lower fair value appreciation.

Venture Capital (VC)
Venture Capital will play a catalyst role in the Canadian VC ecosystem during the COVID crisis and as the economy slowly recovers. Venture Capital estimates that it will authorize $405.0 million in investments in fiscal 2022, including $155.0 million in direct investments, $170.0 million indirect investments, $50.0 million in Growth Equity investments and $30.0 million in IP financing investments. The fair value of the Venture Capital portfolio is forecasted to be $2,037.0 million by March 31, 2022, compared to $2,158.9 million as at March 31, 2021.

For fiscal 2022, Venture Capital forecasts net income of $48.0 million. Operating and administrative expenses are projected to be $46.0 million, higher than in fiscal 2021. For fiscal 2022 proceeds from investments are forecasted at $120.0 million and disbursements at $331.0 million. It should be noted, however, that due to the risky nature of venture capital, which translates into portfolio volatility, it is difficult to make reliable net income forecasts.

Capital Incentive Programs (CIP)
The Capital Incentive Programs include the Venture Capital Action Plan (VCAP), the Venture Capital Catalyst Initiative (VCCI), the Cleantech Practice and the Indigenous Growth Fund (IGF), which is expected to be initiated in fiscal 2022.

CIP estimates that it will authorize $150.0 million in fiscal 2022, which is 8.5% higher than in fiscal 2021. For fiscal 2022, CIP forecasts net losses of $17.0 million, mainly due to net fair value depreciation. Financial results are expected to be subject to significant volatility.

Capital Availability Program (CAP)
Given the uneven recovery and third wave of infections, many entrepreneurs will continue to face financial difficulties. BDC will continue to support them through the CAP initiative in fiscal 2022, including the Highly Affected Sectors Credit Availability Program which was launched at the end of fiscal 2021 to provide additional liquidity to Canadian businesses.

The CAP portfolio is expected to reach $4,573 million by March 31, 2022. CAP's net loss is forecasted to be $444.0 million in fiscal 2022, mainly driven by the provision for expected credit losses due to the riskier profile of the portfolio. Operating and administrative expenses are expected to be lower in fiscal 2022, as these expenses peaked in fiscal 2021 because of the start-up costs and operational changes implemented to rapidly deploy the program to support entrepreneurs.

Considering the high degree of economic and market uncertainty, significant variations from projections may occur.

4 Risk Management

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

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

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

BDC's risk management principles

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

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

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

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

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

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

Risk governance framework

Risk owners

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

Risk oversight functions

> Design, implement and communicate risk governance, risk and control strategies, and risk management policies, directives and procedures.

> Support first line in the development, management and updating of activities to address governance, risk and controls.

> Objectively provide oversight of first line activities

The Board of Directors

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

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

All committees consider risk in their deliberations and have specific responsibilities for managing risk. For full details on the board and its committees, please see the Corporate Governance section, starting on page 139.

BDC management: Risk committees and functions

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

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

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

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

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

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

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

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

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

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

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

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

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

> develop tools to measure, monitor and report on risks

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

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

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

Top risks

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

F Portfolio risk
The risk that business disruption, market uncertainty and global recession will lead to higher loan defaults, pricing that is not aligned to client risk profiles and a higher number of clients who are vulnerable to financial difficulty.

O Operational risk
The risk associated with operational failure due to human, process or technology faults in the context of physical distancing (displacement of employees and remote interaction with clients) and remote connectivity.

T Cyber-security
The risk that technology will be used to maliciously access, use or distribute restricted data, disrupt operations or intentionally compromise BDC's reputation. It includes exposure to illegal/fraudulent activity, cyber-security risks and internal threats. This risk is further elevated as a result of remote connectivity by employees and suppliers and the current operating environment.

T Information technology (IT) failure
The risk of IT infrastructure and related applications not adequately responding to business needs because of a lack of systems availability, reliability, capacity, serviceability and maintenance.

O Third-party failure
The risk of failure and/or security compromise associated with the sourcing, procurement and performance of third-party suppliers, products and services.

O Reputational risk
The risks to BDC's public image related to the perception we are unable or unwilling to provide financial support to some Canadian entrepreneurs, including those with poor risk profiles before the COVID-19 crisis and the perception we are not delivering solutions in a timely manner due to high volumes.

F Market uncertainty
The risk that increasing market uncertainty and adverse changes in the macroeconomic environment will result in significant changes in interest rates and other market factors impacting loans, investments and transactions.

O Climate change
Risks associated with climate change and its impact on both BDC and its clients. These include severe weather events, changing economic systems and evolving government and societal responses that may result in a broad range of risks, including strategic, reputational, structural and credit-related risks.

F Portfolio volatility
The risk that increasing market uncertainty and adverse changes in market factors such as interest rates, foreign exchange rates, equity or commodity prices will result in losses that exceed expectations.

O Change management
The risk that the volume and velocity of change resulting from large concurrent strategic initiatives and internal priorities will impact BDC's ability to implement initiatives effectively, increase reliance on limited specialized resources and/or disrupt its capacity to deliver on its mandate and achieve its strategic objectives.

O Human resources
The risk that labour and skill shortages will arise from the following: competition for key resources; increasing operational demands for specialized skills and knowledge; a highly demanding workplace environment with large, varied and concurrent changes underway.

F Financial risk
T Technological risk
O Operational risk

Risk appetite framework and risk appetite statement

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

- we understand, can manage and are aligned with our strategy
- fulfill our mandate to support Canadian SMEs
- do not materially expose our brand, reputation or our shareholder

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

Enterprise-wide risk management process

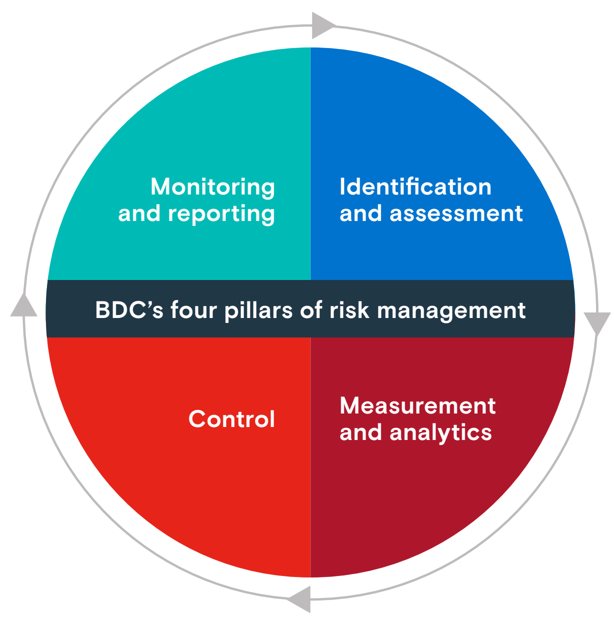
The risk management framework (RMF) provides a consistent and structured approach to managing the risks inherent in BDC's activities while ensuring risk-taking activities are aligned with BDC's strategy and mandate and conform to the RAS. The RMF outlines the methodology used by BDC to manage risk and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

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

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

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

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



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

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

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

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

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

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

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

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

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

Major risk categories

COVID-19 risk
The COVID-19 pandemic has caused extreme hardship for many small and medium-sized businesses and continues to adversely impact BDC clients. We support entrepreneurs in their efforts to weather the pandemic through our Credit Availability Program (CAP) as well as with our other financing and advisory products and services.

A prolongation of the pandemic will mean continued negative impacts on the Canadian economy, global markets and individual businesses. As the pandemic continues, the relevant operational, credit and financial risks will increase, exposing BDC and our clients to additional challenges.

Nevertheless, we remain dedicated to maintaining the highest standards of good governance, due diligence, internal risk controls and professional judgement in carrying out our activities in this period.

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

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

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

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

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

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

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

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

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

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

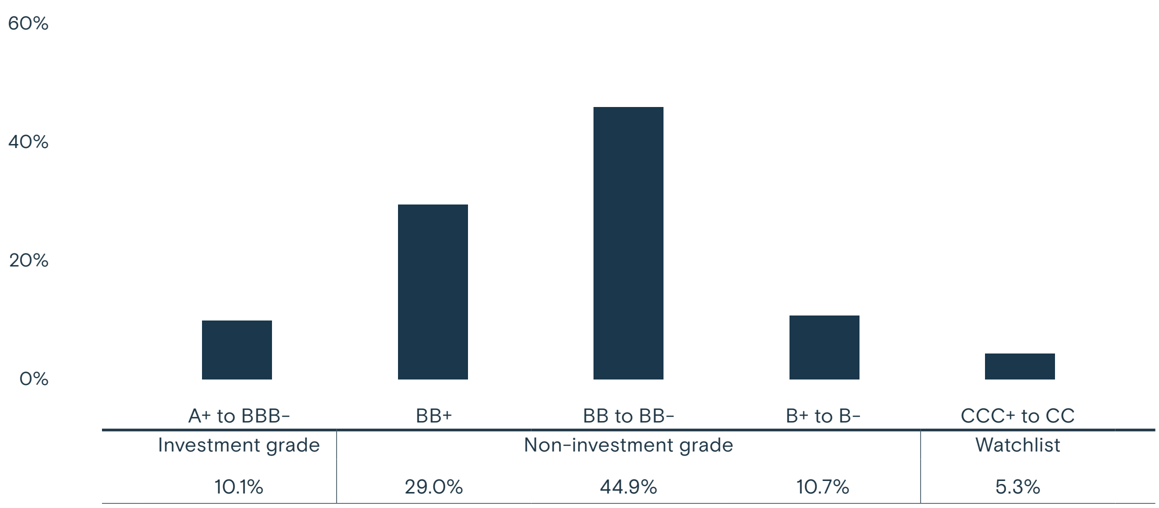
The table below matches our internal ratings to the ratings used by external ratings agencies.

While BDC follows leading risk management practices, we generally assume more risk than a typical financial institution, due to our mandate and corresponding risk appetite. As a result, a large portion of BDC's portfolio is non-investment grade. Please refer to Note 9—*Loans* to the Consolidated Financial Statements for further information on loans outstanding, by grade equivalent.

BDC performing loans portfolio credit risk exposure

BDC rating	Grade	S&P equivalent	F2021 - March 31, 2021
0.5 to 1.0	Investment grade	A+ to BBB-	10%
1.5 - 2.0		BB+	29%
2.5 - 4.0	Non-investment grade	BB to BB-	45%
4.5 - 5.0		B+ to B-	11%
5.5	Watchlist	CCC+ to CC	5%
			100%

BDC loans performing portfolio, classified by credit risk exposure
as at March 31, 2021 (as a percentage of gross performing financing portfolio)



The most common method used to mitigate credit risk at the transaction level is to obtain high-quality collateral from borrowers. While collateral cannot replace a rigorous assessment of a borrower's ability to meet his or her obligations to us, it is an important complement. Collateral is not required in all cases; it depends on the type of loan granted. Please refer to Note 9—*Loans* to the Consolidated Financial Statements for further information about principal collateral pledged as security and our level of security coverage.

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

Market risk

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

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

Managing market risk

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

Liquidity risk

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

Managing liquidity risk

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

Operational risk

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

Managing Operational Risk

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

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

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

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

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

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

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

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

Technology risk

Technology risks are omnipresent in the daily operations of BDC. The potential severity of technology failures and cyber-security threats continues to increase as our reliance on technology, systems and data grows, and as we become increasingly interconnected with third parties.

Organizations, including financial institutions, are exposed to a large and growing array of threats from both outside and inside the organization. As a consequence of the COVID-19 pandemic, our exposure to technology risk has grown even larger due to employee dispersion and virtual operations.

Additionally, BDC has embarked on a significant transformation of our digital operations, including an enhancement of our IT infrastructure and data management systems. While management attention to these initiatives is high, the risk associated with deployment of large-scale technology projects is elevated.

Therefore, the need to identify, analyze, monitor and mitigate technology risks is included in numerous policies and directives. These policies and directives govern the way BDC manages systems and infrastructure, cyber-security, information security and data integrity.

Managing technology risk

BDC strives to ensure the protection of our systems and client and corporate information and data. We continuously invest in our technology infrastructure to safeguard our systems and information while advancing our business goals. Risk mitigation efforts include 24/7 detection and response capabilities in partnership with leading security firms; ongoing roll out of tools to monitor and block data theft; system and network controls; programs to foster employee awareness of threats; and ongoing independent testing of infrastructure, systems and applications.

In addition, we have established a training program to improve incident responses by our IT cyber-security/operations specialists. We manage technology incidents and work to minimize interruptions to business operations through our IT disaster recovery plan and IT incident management processes.

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

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

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

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

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

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

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

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

Environment and social risk
This is the risk that BDC actions, activities or inaction will have direct, indirect or perceived negative environmental or social impacts.

Climate change has led to physical risks, including floods, storms, wildfires and drought. It is also creating marketplace transition risks as governments, entrepreneurs, consumers and investors adapt to the movement towards a low-carbon, climate resilient economy. Many Canadian entrepreneurs—including BDC clients and partners—are directly or indirectly vulnerable to physical and/or transition risks related to climate change.

We are starting to see structural adjustments in the global economy, including, for example, climate-related standards in supply chains. We believe climate change risk management will become business-as-usual and be embedded in everyday decisions. In the financial sector, this transition has already begun. In line with this trend, BDC is progressively shifting our management of climate risk to accommodate the necessary operational, strategic, regulatory and legal considerations.

For BDC, social risk has both direct and indirect dimensions. Direct risks would stem from failing to effectively fulfill our mandate of supporting entrepreneurs. Indirect risks would stem from financing clients or collaborating with partners whose behaviours contravene accepted norms of responsible corporate behavior, such as discriminating against individuals or groups.

Managing environment and social risk
Climate-related risks for Canada, BDC and entrepreneurs are no longer emerging risks; they are an operational reality. Therefore, in addition to managing our own carbon footprint, climate considerations and risks are being integrated into BDC's risk management framework, corporate governance, product considerations and operational activities.

BDC's strategy to address climate-related risk is aligned with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). Like our peers, we are using the roadmap created by the TCFD's core principles and guidelines for governance, strategy, risk management, and metrics and targets. We will report progress to our Board of Directors, which oversees senior management's implementation of new policies and practices. In the execution of the TCFD recommendations, BDC will progressively identify, understand and manage the risks and opportunities presented by climate change and solutions to support both our operational needs and those of our clients.

Social risk management is embedded in the day-to-day activities of the Bank and the products and services we provide to entrepreneurs. In addition, we establish internal risk management programs to ensure that employees, suppliers and clients adhere to conduct aligned with our mandate and sustainability objectives.

5 Accounting and Control Matters

Significant accounting policies

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

Future changes in accounting policies

Interest rate benchmark reform (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

In September 2019, in response to uncertainty arising from the phasing-out of benchmark interest rates such as interbank offered rates (IBORs), the IASB issued amendments to its new and former financial instrument standards. Phase 1 of the amendments, applicable for annual periods beginning on or after January 1, 2020, provided temporary exceptions from applying specific hedge accounting requirements in IFRS 9, *Financial Instruments*, and IAS 39, *Financial Instruments: Recognition and Measurement*, to all hedging relationships directly affected by interest rate benchmark reform, as well as specific disclosures requirements in IFRS 7, *Financial Instruments: Disclosures*. Phase 1 of the reform did not have an impact on BDC's Consolidated Financial Statements as BDC does not apply hedge accounting.

In August 2020, the IASB issued the second phase and final amendment of the interest rate benchmark reform project, which addresses issues that might affect financial reporting once existing benchmark rates are replaced with alternative benchmark rates. The final amendment sets out amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement* IFRS 7, *Financial Instruments: Disclosures*, IFRS 4, *Insurance Contracts*, and IFRS 16, *Leases*. The final amendment proposes modifications to the following areas: modifications of financial assets, financial liabilities and lease liabilities, hedge accounting requirements, and specific disclosures. The amendments are effective for annual periods beginning on or after January 1, 2021 and are to be applied retrospectively. Early application is permitted. BDC is currently assessing the impact of adopting the second phase of the reform project but does not expect that it will have a material impact on BDC's Consolidated Financial Statements.

Judgements, estimates and assumptions

BDC's significant accounting judgements, estimates and assumptions are described in Note 5—*Significant accounting judgements, estimates and assumptions* to the Consolidated Financial Statements. Critical accounting estimates that have the most significant effect on the amounts recognized in the Consolidated Financial Statements include those related to the allowance for expected credit losses, fair value of financial instruments, impairment of available-for-sale assets, consolidation, defined benefit pension plans and other post-employment benefits.

Controls and procedures

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

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

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

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

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

As of March 31, 2021, certifying officers evaluated the design and effectiveness of internal control over financial reporting. Based on the results of the evaluation, they concluded that internal control over financial reporting is adequately designed and operates effectively to provide reasonable assurance about the reliability of financial reporting and of financial statements prepared in accordance with IFRS.

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

As of March 31, 2021, certifying officers evaluated the design and effectiveness of disclosure controls and procedures. Based on the results of the evaluation, they concluded that disclosure controls and procedures are adequately designed and operate effectively to provide reasonable assurance that material information disclosed is recorded, processed, summarized and presented within the requested timeframe, and that it is communicated to management on a timely basis for decision-making purposes.

Consolidated Financial Statements

Management's Responsibility for Financial Information

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

In discharging its responsibility for the integrity, fairness and quality of the Consolidated Financial Statements and for the accounting systems from which they are derived, management maintains a system of internal control designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. BDC has a certification regime to evaluate the design and effectiveness of its internal control over financial reporting and its disclosure controls and procedures. This certification regime is based on the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Refer to the Management's Discussion and Analysis section of the annual report for additional information (page 55).

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

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

Michael Denham
President and Chief Executive Officer

Montreal, Canada
June 9, 2021

Stefano Lucarelli, CPA, CA
Chief Financial Officer

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

KPMG

INDEPENDENT AUDITORS' REPORT

To the Minister of International Trade

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Business Development Bank of Canada (the BDC), which comprise the consolidated statement of financial position as at 31 March 2021, and the consolidated statement of income (loss), consolidated statement of comprehensive income (loss), consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the BDC as at 31 March 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Matter

The consolidated financial statements of the Business Development Bank of Canada for the year ended 31 March 2020, were audited by the Auditor General of Canada and another auditor who expressed an unmodified opinion on those consolidated financial statements on 10 June 2020.

Other Information

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Report on Compliance with Specified Authorities

Opinion

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

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

Responsibilities of Management for Compliance with Specified Authorities

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

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

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

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

Montréal, Canada
9 June 2021

KPMG LLP*

*CPA auditor, CA, public accountancy permit No. A120220

Consolidated Statement of Financial Position

(in thousands of Canadian dollars)

	Note	**March 31, 2021**	March 31, 2020
ASSETS			
Cash and cash equivalents	7	**800,515**	1,821,397
Derivative assets	8	**4,895**	12,356
Loans			
Loans, gross carrying amount	9	**32,431,181**	28,472,261
Less: allowance for expected credit losses	9	**(1,525,700)**	(1,199,173)
Loans, net of allowance for expected credit losses		**30,905,481**	27,273,088
Investments			
Asset-backed securities	10	**733,322**	777,838
Subordinate financing investments	11	**1,452,966**	1,240,588
Venture capital investments	12	**2,978,568**	1,721,136
Total investments		**5,164,856**	3,739,562
Property and equipment	13	**72,993**	67,704
Intangible assets	14	**39,841**	41,525
Right-of-use assets	15	**119,038**	127,523
Net defined benefit asset	19	**4,796**	41,781
Other assets	16	**35,702**	28,422
Total assets		**37,148,117**	33,153,358
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities	17	**194,807**	158,292
Derivative liabilities	8	**2,278**	16,125
Borrowings			
Short-term notes	18	**13,336,374**	19,362,224
Long-term notes	18	**5,036,235**	4,207,066
Total borrowings		**18,372,609**	23,569,290
Lease liabilities			
Short-term lease liabilities	15	**13,328**	12,063
Long-term lease liabilities	15	**119,129**	125,138
Total lease liabilities		**132,457**	137,201
Net defined benefit liability	19	**277,981**	246,443
Other liabilities	20	**150,628**	123,208
Total liabilities		**19,130,760**	24,250,559
Equity			
Share capital	21	**11,511,900**	4,008,900
Contributed surplus		**27,778**	27,778
Retained earnings		**6,450,829**	4,846,219
Accumulated other comprehensive income		**13,588**	8,763
Equity attributable to BDC's shareholder		**18,004,095**	8,891,660
Non-controlling interests		**13,262**	11,139
Total equity		**18,017,357**	8,902,799
Total liabilities and equity		**37,148,117**	33,153,358

Guarantees and contingent liabilities (Note 26)

Commitments (Notes 9, 10, 11, 12, 13, 14 and 15)

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

Brian O'Neil
Director
Chairperson, Audit and Conduct Committee

Michael Denham
Director
President and Chief Executive Officer

Consolidated Statement of Income (Loss)

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

	2021	2020
Interest income	**1,613,015**	1,763,833
Interest expense	**93,619**	366,521
Net interest income	**1,519,396**	1,397,312
Net realized gains (losses) on investments	**167,076**	248,073
Revenue from Advisory Services	**20,922**	29,236
Fee and other income	**67,425**	72,109
Net revenue	**1,774,819**	1,746,730
Provision for expected credit losses	**(507,256)**	(772,511)
Net change in unrealized appreciation (depreciation) of investments	**1,136,019**	(541,225)
Net foreign exchange gains (losses)	**(80,717)**	36,102
Net gains (losses) on other financial instruments	**1,034**	216
Income before operating and administrative expenses	**2,323,899**	469,312
Salaries and benefits	**454,441**	452,954
Premises and equipment	**43,158**	44,179
Other expenses	**176,437**	190,178
Operating and administrative expenses	**674,036**	687,311
Net income (loss)	**1,649,863**	(217,999)
Net income (loss) attributable to:		
BDC's shareholder	**1,647,648**	(193,018)
Non-controlling interests	**2,215**	(24,981)
Net income (loss)	**1,649,863**	(217,999)

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

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

Note 25 provides segmented information.

Note 28 provides details on comparative information reclassification.

Consolidated Statement of Comprehensive Income (Loss)

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

	Note	**2021**	2020
Net income (loss)		**1,649,863**	(217,999)
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		**6,096**	2,515
Reclassification to net income of losses (gains) on cash flow hedges		**(1,271)**	(1,125)
Total items that may be reclassified subsequently to net income		**4,825**	1,390
Items that will not be reclassified to net income			
Remeasurements of net defined benefit asset or liability	19	**(43,038)**	91,563
Other comprehensive income (loss)		**(38,213)**	92,953
Total comprehensive income (loss)		**1,611,650**	(125,046)
Total comprehensive income (loss) attributable to:			
BDC's shareholder		**1,609,435**	(100,065)
Non-controlling interests		**2,215**	(24,981)
Total comprehensive income (loss)		**1,611,650**	(125,046)

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

Consolidated Statement of Changes in Equity

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

	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) FVOCI assets [1]	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
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				**1,647,648**				**1,647,648**	**2,215**	**1,649,863**
Other comprehensive income (loss)										
Net change in unrealized gains (losses) on fair value through other comprehensive income assets					**6,096**		**6,096**	**6,096**		**6,096**
Net change in unrealized gains (losses) on cash flow hedges						**(1,271)**	**(1,271)**	**(1,271)**		**(1,271)**
Remeasurements of net defined benefit asset or liability	19			**(43,038)**				**(43,038)**		**(43,038)**
Other comprehensive income (loss)		**–**	**–**	**(43,038)**	**6,096**	**(1,271)**	**4,825**	**(38,213)**	**–**	**(38,213)**
Total comprehensive income (loss)		**–**	**–**	**1,604,610**	**6,096**	**(1,271)**	**4,825**	**1,609,435**	**2,215**	**1,611,650**
Distributions to non-controlling interests									**(144)**	**(144)**
Capital injections from non-controlling interests									**52**	**52**
Issuance of common shares	21	**7,503,000**						**7,503,000**		**7,503,000**
Transactions with owner, recorded directly in equity		**7,503,000**	**–**	**–**	**–**	**–**	**–**	**7,503,000**	**(92)**	**7,502,908**
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**

(1) Fair value through other comprehensive income assets

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

Consolidated Statement of Changes in Equity (continued)

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

	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) FVOCI assets[1]	Accumulated other comprehensive income (loss) Cash flow hedges	Accumulated other comprehensive income (loss) Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at March 31, 2019		2,602,900	27,778	5,076,074	2,751	4,622	7,373	7,714,125	41,635	7,755,760
Total comprehensive income (loss)										
Net loss				(193,018)				(193,018)	(24,981)	(217,999)
Other comprehensive income (loss)										
Net change in unrealized gains (losses) on fair value through other comprehensive income assets					2,515		2,515	2,515		2,515
Net change in unrealized gains (losses) on cash flow hedges						(1,125)	(1,125)	(1,125)		(1,125)
Remeasurements of net defined benefit asset or liability	19			91,563				91,563		91,563
Other comprehensive income (loss)		–	–	91,563	2,515	(1,125)	1,390	92,953	–	92,953
Total comprehensive income (loss)		–	–	(101,455)	2,515	(1,125)	1,390	(100,065)	(24,981)	(125,046)
Dividends on common shares	21			(128,400)				(128,400)		(128,400)
Distributions to non-controlling interests									(5,554)	(5,554)
Capital injections from non-controlling interests									39	39
Issuance of common shares	21	1,406,000						1,406,000		1,406,000
Transactions with owner, recorded directly in equity		1,406,000	–	(128,400)	–	–	–	1,277,600	(5,515)	1,272,085
Balance as at March 31, 2020		4,008,900	27,778	4,846,219	5,266	3,497	8,763	8,891,660	11,139	8,902,799

(1) Fair value through other comprehensive income assets

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

Consolidated Statement of Cash Flows

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

	Note	**2021**	2020
Operating activities			
Net income (loss)		**1,649,863**	(217,999)
Adjustments to determine net cash flows			
Interest income		**(1,613,015)**	(1,763,833)
Interest expense		**91,537**	364,537
Interest on lease liabilities		**2,082**	1,984
Net realized losses (gains) on investments		**(167,076)**	(248,073)
Provision for expected credit losses		**507,256**	772,511
Net change in unrealized depreciation (appreciation) of investments		**(1,136,019)**	541,225
Net unrealized foreign exchange losses (gains)		**132,852**	(56,946)
Net unrealized losses (gains) on other financial instruments		**237**	909
Defined benefits funding below (in excess of) amounts expensed	19	**25,485**	34,502
Depreciation of property and equipment, and amortization of intangible assets	13, 14	**22,466**	19,520
Depreciation of right-of-use assets	15	**15,306**	14,164
Loss (gain) on derecognition of property and equipment and intangible assets	13, 14	**192**	154
Impairment of intangible assets	14	**–**	1,671
Other		**(34,073)**	(8,943)
Interest expense paid		**(95,152)**	(364,269)
Interest income received		**1,566,706**	1,733,400
Changes in operating assets and liabilities			
Net change in loans		**(4,088,664)**	(2,028,899)
Net change in accounts payable and accrued liabilities		**36,515**	16,880
Net change in other assets and other liabilities		**(19,428)**	6,875
Net cash flows provided (used) by operating activities		**(3,102,930)**	(1,180,630)
Investing activities			
Disbursements for asset-backed securities		**(282,419)**	(407,360)
Repayments and proceeds on sale of asset-backed securities		**332,966**	332,410
Disbursements for subordinate financing investments		**(379,461)**	(537,193)
Repayments of subordinate financing investments		**349,772**	339,180
Disbursements for venture capital investments		**(512,951)**	(270,438)
Proceeds on sale of venture capital investments		**298,688**	441,363
Acquisition of property and equipment	13	**(16,708)**	(17,860)
Acquisition of intangible assets	14	**(9,555)**	(13,749)
Net cash flows provided (used) by investing activities		**(219,668)**	(133,647)
Financing activities			
Net change in short-term notes	18	**(6,019,828)**	(1,580,300)
Issue of long-term notes	18	**835,000**	2,755,000
Repayment of long-term notes	18	**(2,554)**	–
Distributions to non-controlling interests		**(144)**	(5,554)
Capital injections from non-controlling interests		**52**	39
Issuance of common shares	21	**7,503,000**	1,406,000
Dividends paid on common shares	21	**–**	(128,400)
Payment of lease liabilities		**(13,810)**	(15,091)
Net cash flows provided (used) by financing activities		**2,301,716**	2,431,694
Net increase (decrease) in cash and cash equivalents		**(1,020,882)**	1,117,417
Cash and cash equivalents at beginning of year		**1,821,397**	703,980
Cash and cash equivalents at end of year		**800,515**	1,821,397

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

Notes to the Consolidated Financial Statements

For the year ended March 31, 2021 (in thousands of Canadian dollars)

1.

Act of incorporation, objectives and operations of the Corporation

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

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

BDC does not receive appropriations from the government of Canada. To finance its objectives, BDC borrows funds from Her Majesty the Queen in Right of Canada acting through the Minister of Finance. Prior to April 21, 2008, BDC issued debt instruments, which were secured by the Government of Canada. The *Business Development Bank of Canada Act* (BDC Act) also allows the use of hybrid capital instruments to provide the capital required for its operations. Her Majesty the Queen in Right of Canada would not be liable for payment of amounts owing under such capital instruments, none of which were outstanding as at March 31, 2021, and March 31, 2020.

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

Pursuant to section 89 of the FAA, BDC received a directive in December 2014 from the Governor General in Council (P.C. 2014-1378) requesting that BDC review its current pension plan and ensure that it remains affordable, financially sustainable and consistent with the terms of the Public Service Pension Plan. These changes were intended to ensure that pension plans of Crown corporations provide a 50:50 current service cost-sharing ratio between employee and employer for pension contributions by December 31, 2017, as well as to raise the normal age of retirement to 65 years for employees hired on or after January 1, 2015. Consequently, to comply with the directive, BDC implemented modifications to its existing defined benefit pension plan effective January 1, 2015. Eligible employees hired before January 1, 2015, had a choice of three options: two options included some features of the old plan design and a third option offered a completely new benefit structure. Employees hired after December 31, 2014, are automatically enrolled in the third option. In addition, BDC gradually increased the employee's contribution level to achieve a 50:50 current service cost sharing by December 31, 2017 and approved a funding policy with mechanisms to ensure BDC's cash contributions, for current service cost only, would not exceed members' required contributions, on a cumulative basis while complying with regulations. BDC completed the implementation of both elements of its strategy by December 31, 2017. As at December 31, 2020, BDC reached a level of employer contribution that, although not exactly 50:50, only slightly exceeded 50% of the current service cost, and is administered in accordance with regulations and its funding policy. BDC met with representatives from the Treasury Board Secretariat of Canada (TBS) in May 2019 and agreed to report annually on its current service cost sharing ratio over the next 5 years. This will enable TBS and BDC to monitor the situation and assess whether further actions are required at the end of fiscal 2025.

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

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

2.

Basis of preparation

Statement of compliance

BDC has prepared its Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These Consolidated Financial Statements were approved for issue by the Board of Directors on June 9, 2021.

Basis of presentation and measurement

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

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

Basis of consolidation

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

The Consolidated Financial Statements of BDC comprise the financial statements of the parent entity and the consolidated financial statements of the subsidiaries referred to below as of March 31, 2021, and March 31, 2020. The financial statements of the subsidiaries are prepared using uniform accounting policies and valuation methods for similar transactions.

2. Basis of preparation (continued)

Subsidiaries

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

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

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

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

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

2. Basis of preparation (continued)

Associates

Associates are those entities in which BDC has significant influence, but not control, over the financial and operating policies. Subordinate financing and venture capital investments in associates that are held as part of BDC's investment portfolio by BDC Capital Inc. are carried in the Consolidated Statement of Financial Position at fair value. This treatment is permitted by International Accounting Standard (IAS) 28, *Investments in Associates*, 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 Consolidated Financial Statements are set out below. These policies have been consistently applied to all periods presented in these 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.

3. Significant accounting policies (continued)

Financial instruments (continued)

Classification of financial instruments

Financial assets (continued)

Business model assessment (continued)

BDC makes an assessment of the objective of a business model 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.

3. Significant accounting policies (continued)

Financial instruments (continued)

Classification of financial instruments (continued)

Financial liabilities

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

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

Subsequent measurement of financial instruments

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

Financial instruments classified at amortized cost

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

Financial instruments classified at fair value through profit or loss

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

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

> net gains or losses on other financial instruments when related to derivatives.

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

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

> net gains or losses on other financial instruments when related to derivatives.

Financial instruments classified at fair value through other comprehensive income

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Subsequent measurement of financial instruments (continued)

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 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.

3. Significant accounting policies (continued)

Financial instruments (continued)

Impairment (continued)

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.

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 March 31, 2021, and March 31, 2020, 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.

3. Significant accounting policies (continued)

Financial instruments (continued)

Loans

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

Allowance for expected credit losses

BDC reviews its loan portfolio on an individual asset basis to assess credit risk using the three-stage IFRS 9 impairment model and recognizes ECLs in the provision for expected credit losses in the Consolidated Statement of Income (Loss) and the allowance for expected credit losses in the Consolidated Statement of Financial Position. When 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 5—*Significant accounting judgements, estimates and assumptions* for more information regarding the criteria used to determine the amount of the allowance.

3. Significant accounting policies (continued)

Financial instruments (continued)

Major types of financial instruments (continued)

Asset-backed securities

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

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

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

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

ABS credit risk is monitored quarterly using internal credit risk rating methodology. As at March 31, 2021, and March 31, 2020, 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 5—*Significant accounting judgements, estimates and assumptions* for more information regarding the criteria used to determine whether an impairment has occurred.

Subordinate financing and venture capital investments

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

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Major types of financial instruments (continued)

Derivatives

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

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

BDC holds hybrid financial instruments 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 March 31, 2021, and March 31, 2020, BDC had no embedded derivatives that needed to be separated from a host contract because the entire instrument was designated at fair value through profit or loss.

Borrowings

Short-term notes are measured at amortized cost.

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

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

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

3. Significant accounting policies (continued)

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

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

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

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

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

Revenue from Advisory Services

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

Property and equipment and intangible assets

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

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

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

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

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

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

3. Significant accounting policies (continued)

Property and equipment and intangible assets (continued)

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

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

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

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

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

Leases

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.

3. Significant accounting policies (continued)

Leases (continued)

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.

Net defined benefit asset or liability

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

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

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

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

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

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

3. Significant accounting policies (continued)

Equity attributable to BDC's shareholder

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

Unrealized gains and losses on financial instruments classified as FVOCI assets are included in AOCI until such time as the financial instruments are derecognized or impaired, at which time these gains or losses are reclassified to net income. Prior to April 1, 2018, unrealized gains and losses on derivative financial instruments designated as hedging instruments 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 exchanges rates in effect during the year.

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 28—*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.
Future accounting changes

As at March 31, 2021, certain new standards, amendments and interpretations to existing standards had been published by the International Accounting Standards Board (IASB) but have not been adopted early by BDC. Certain other new standards and interpretations have been issued but are not expected to have a material impact on BDC's Consolidated Financial Statements.

Interest rate benchmark reform (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

In September 2019, in response to uncertainty arising from the phasing-out of benchmark interest rates such as interbank offered rates (IBORs), the IASB issued amendments to its new and former financial instrument standards. Phase 1 of the amendments, applicable for annual periods beginning on or after January 1, 2020, provided temporary exceptions from applying specific hedge accounting requirements in IFRS 9, *Financial Instruments*, and IAS 39, *Financial Instruments: Recognition and Measurement*, to all hedging relationships directly affected by interest rate benchmark reform, as well as specific disclosures requirements in IFRS 7, *Financial Instruments: Disclosures*. Phase 1 of the reform did not have an impact on BDC's Consolidated Financial Statements as BDC does not apply hedge accounting.

In August 2020, the IASB issued the second phase and final amendment of the interest rate benchmark reform project, which addresses issues that might affect financial reporting once existing benchmark rates are replaced with alternative benchmark rates. The final amendment sets out amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement* IFRS 7, *Financial Instruments: Disclosures*, IFRS 4, *Insurance Contracts*, and IFRS 16, *Leases*. The final amendment proposes modifications to the following areas: modifications of financial assets, financial liabilities and lease liabilities, hedge accounting requirements, and specific disclosures. The amendments are effective for annual periods beginning on or after January 1, 2021 and are to be applied retrospectively. Early application is permitted. BDC is currently assessing the impact of adopting the second phase of the reform project but does not expect that it will have a material impact on BDC's Consolidated Financial Statements.

5.
Significant accounting judgements, estimates and assumptions

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

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

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.

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

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

Allowance for expected credit losses

The allowance for expected credit losses under IFRS 9 represents management's estimate of the losses expected in the loan portfolio, 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 March 31, 2021.

Changes in these assumptions, or the use of other reasonable judgements, can materially affect the allowance level. Refer to Note 9—*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.

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

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.

These judgements include considerations of inputs such as the discount rate, the expected rate of return by level of risk and the weighted forecast of cash flows. Changes to these inputs could affect the reported fair value of financial instruments. Refer to Note 3—*Significant accounting policies* for more information about the valuation techniques used for each type of financial instrument and to Note 6—*Classification and fair value of financial instruments* for additional information on fair value hierarchy levels.

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.

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

Consolidation

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

(in thousands of Canadian dollars)

6.
Classification and fair value of financial instruments

Classification of financial instruments

The following tables summarize the classification of BDC's financial instruments as at March 31, 2021, and March 31, 2020.

March 31, 2021

		Measured at fair value				
		FVTPL[1]				
	Note	FVTPL	Designated as at FVTPL	FVOCI[2]	Measured at amortized cost	Total
Financial assets						
Cash and cash equivalents	7	–	–	–	**800,515**	**800,515**
Derivative assets	8	**4,895**	–	–	–	**4,895**
Loans, net of allowance for expected credit losses	9	–	–	–	**30,905,481**	**30,905,481**
Asset-backed securities	10	**10,076**	–	**723,246**	–	**733,322**
Subordinate financing investments	11	**1,452,966**	–	–	–	**1,452,966**
Venture capital investments	12	**2,978,568**	–	–	–	**2,978,568**
Other assets[3]	16	–	–	–	**8,800**	**8,800**
Total financial assets		**4,446,505**	–	**723,246**	**31,714,796**	**36,884,547**
Financial liabilities						
Accounts payable and accrued liabilities	17	–	–	–	**194,807**	**194,807**
Derivative liabilities	8	**2,278**	–	–	–	**2,278**
Short-term notes	18	–	–	–	**13,336,374**	**13,336,374**
Long-term notes	18	–	**127,662**	–	**4,908,573**	**5,036,235**
Other liabilities[3]	20	–	–	–	**142,129**	**142,129**
Total financial liabilities		**2,278**	**127,662**	–	**18,581,883**	**18,711,823**

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

(in thousands of Canadian dollars)

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

Classification of financial instruments (continued)

March 31, 2020

		Measured at fair value				
		FVTPL(1)				
	Note	FVTPL	Designated as at FVTPL	FVOCI(2)	Measured at amortized cost	Total
Financial assets						
Cash and cash equivalents	7	–	–	–	1,821,397	1,821,397
Derivative assets	8	12,356	–	–	–	12,356
Loans, net of allowance for expected credit losses	9	–	–	–	27,273,088	27,273,088
Asset-backed securities	10	9,857	–	767,981	–	777,838
Subordinate financing investments	11	1,240,588	–	–	–	1,240,588
Venture capital investments	12	1,721,136	–	–	–	1,721,136
Other assets(3)	16	–	–	–	11,026	11,026
Total financial assets		2,983,937	–	767,981	29,105,511	32,857,429
Financial liabilities						
Accounts payable and accrued liabilities	17	–	–	–	158,292	158,292
Derivative liabilities	8	16,125	–	–	–	16,125
Short-term notes	18	–	–	–	19,362,224	19,362,224
Long-term notes	18	–	135,734	–	4,071,332	4,207,066
Other liabilities(3)	20	–	–	–	115,739	115,739
Total financial liabilities		16,125	135,734	–	23,707,587	23,859,446

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

Financial instruments carried at amortized cost

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

			March 31, 2021			March 31, 2020
	Fair value hierarchy level	Fair value	Carrying value	Fair value hierarchy level	Fair value	Carrying value
Financial assets measured at amortized cost						
Loans	**2**	**30,990,580**	**30,905,481**	2	27,619,725	27,273,088
Financial liabilities measured at amortized cost						
Short-term notes	**1**	**13,336,546**	**13,336,374**	1	19,364,561	19,362,224
Long-term notes	**2**	**5,006,326**	**4,908,573**	2	4,254,693	4,071,332

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

Financial instruments carried at amortized cost (continued)

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

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

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

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

Financial instruments measured at fair value

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

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

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

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

(in thousands of Canadian dollars)

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

Financial instruments measured at fair value (continued)

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

				March 31, 2021
	Fair value measurements using			Total
	Level 1	Level 2	Level 3	fair value
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 at fair value through profit or loss	–	**127,662**	**–**	**127,662**
	–	**129,940**	**–**	**129,940**

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

(in thousands of Canadian dollars)

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

Financial instruments measured at fair value (continued)

The following tables detail the changes in fair value measurement for financial instruments included in Level 3 of the fair value hierarchy. The procedures and valuation techniques used to determine the fair values of subordinate financing and venture capital investments included in Level 3 are described in Note 3—*Significant accounting policies*. These valuation techniques draw upon diverse unobservable inputs, none of which, with the exception of the risk-free interest rate, is individually significant enough to have a material impact on BDC's net income (loss) if it varied within reasonable possible ranges. For subordinate financing investments, the impact of a 1% variation in the risk-free rate would result in a gain or loss of $15.5 million in the current period and an equivalent change in retained earnings ($17.2 million in 2020).

			March 31, 2021
	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 1 to level 3	**–**	**–**	**–**
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**

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

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

	2021	2020
Net realized gains (losses) on investments	**47,589**	14,929
Net change in unrealized appreciation (depreciation) of investments	**1,027,866**	(339,183)
Net unrealized foreign exchange gains (losses) on investments	**(65,533)**	35,310
Total gains (losses) related to level 3 assets still held at the end of the reporting period	**1,009,922**	(288,944)

(in thousands of Canadian dollars)

7.

Cash and cash equivalents

As at March 31, 2021, and March 31, 2020, there are no restrictions on cash and cash equivalents. Cash and cash equivalents include the following components.

	March 31, 2021	March 31, 2020
Cash	**800,515**	1,796,411
Short-term bank notes	**–**	24,986
Cash and cash equivalents	**800,515**	1,821,397

8.

Derivative financial instruments

In compliance with BDC's Treasury Risk Policy, BDC uses the following derivative financial instruments to mitigate its foreign exchange rate risk, as well as its interest rate risk. BDC's policy is not to use derivative financial instruments for speculative purposes. BDC did not enter into any transactions that would require netting during the year.

Swaps

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

> interest rate swaps, which involve exchange of fixed- and floating-rate interest payments; and

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

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

Interest rate

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

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

Foreign exchange rate

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

(in thousands of Canadian dollars)

8. Derivative financial instruments (continued)

Forwards

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

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

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

			March 31, 2021
	Gross assets	Gross liabilities	Net amount
Interest rate swap contracts	**2,718**	**–**	**2,718**
Foreign exchange forward contracts	**2,177**	**2,278**	**(101)**
Total derivative financial instruments	**4,895**	**2,278**	**2,617**

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

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

	Term to maturity				**March 31, 2021**	March 31, 2020
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	Notional amount	Notional amount
Interest rate swap contracts	**124,139**	**–**	**–**	**–**	**124,139**	124,139
Cross-currency interest rate swap contracts	**–**	**–**	**–**	**–**	**–**	2,554
Foreign exchange forward contracts	**579,909**	**–**	**–**	**–**	**579,909**	548,537
Total derivative financial instruments	**704,048**	**–**	**–**	**–**	**704,048**	675,230

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

(in thousands of Canadian dollars)

9.
Loans

The following tables summarize loans outstanding by contractual maturity date.

						2021
	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**

						2020
	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

Allowance for expected credit losses

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

				March 31, 2021
	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) Includes the net remeasurement of the allowance following a transfer between stages, changes in gross carrying amounts, changes in credit risk of existing loans and changes in model inputs and assumptions, including forward-looking macroeconomic variables.

(in thousands of Canadian dollars)

9. Loans (continued)

Allowance for expected credit losses (continued)

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

(1) Provides the cumulative movement from the previous month allowance for expected credit losses due to changes in stages prior to remeasurements.
(2) Includes the net remeasurement of the allowance following a transfer between stages, changes in gross carrying amounts, changes in credit risk of existing loans and changes in model inputs and assumptions, including forward-looking macroeconomic variables.

Key input and assumptions

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

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

Forward-looking information

Forward-looking information is included in both the assessment of allowance for expected credit losses and whether a financial instrument has experienced a significant increase in credit risk. The probability of default (PD), the loss given default (LGD) and the exposure at default (EAD) inputs used to estimate the expected credit loss allowance on the performing portfolio reflect the scenario-weighted forward-looking assumptions. Forward-looking macro-economic variables are forecasted for the base case, upside case and downside case scenarios. For each of the three macro-economic scenarios, the expected credit loss estimate includes a projection of relevant macro-economic variables over the upcoming two years. Key variables include, but are not limited to, GDP growth, unemployment rates, Consumer Price Index, and interest rates. Forecasts include both national and provincial macro-economic variables. The base case scenario forecasts a recovery in the Canadian economy as vaccines are rolled out and the economy gradually reopens. GDP forecasts are predicated on moderate growth assumptions in the first half of 2021, followed by higher growth in the second half of 2021. Upside and downside scenarios vary relative to our base case scenario based on reasonably plausible alternative macroeconomic conditions. The downside case forecast still reflects a recovery in 2021, but at a much lower level than the base case scenario with modest growth in GDP in 2022. The upside scenario reflects a stronger recovery in 2021 than the base case. This rebound in economic activity carries over into the following year with marginally higher forecasts in 2022 compared with the base case projection.

(in thousands of Canadian dollars)

9. Loans (continued)

Forward-looking information (continued)

The inputs and models used in determining the expected credit losses may not always capture all relevant risk factors in our portfolio. The models were calibrated based on historical performance and relied on macro-economic forecasts. The COVID-19 pandemic significantly differs from previous crises given its magnitude, velocity, and root cause. In addition, the government is providing unprecedented levels of support to entrepreneurs and consumers. Therefore, given the significant uncertainties as to the economic recovery and to address all risk factors not captured in the modelled results, expert credit judgement was applied in the assessment of expected credit losses. This included a quantitative and qualitative assessment of BDC's portfolio by industry and geographic segments, which served as a basis for the management overlay. Expert credit judgement was applied to the forecast default assumptions for each portfolio segment considering BDC's historical experience as well as internal portfolio performance and external industry trends. Assumptions also considered the uncertainty over the impact of subsequent waves and spread of new variants, as well as regional restrictions impacting businesses.

Sensitivity of expected credit losses

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

	March 31, 2021	
	Allowance for expected credit losses on performing loans(1)	Impact of staging
As reported	**1,192,578**	**–**
Simulation		
Performing loans if they were all in Stage 1	**981,863**	**(210,715)**
Performing loans if they were all in Stage 2	**1,430,709**	**238,131**

(1) Includes loans and loans commitments.

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

(1) Includes loans and loans commitments.

Credit risk

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

As at March 31, 2021, $45.0 million ($59.7 million as at March 31, 2020) of the impaired loans was secured by assets that BDC had the power to sell in order to satisfy borrower commitments. BDC's policy is to have these assets sold when other avenues of resolution have been exhausted.

(in thousands of Canadian dollars)

9. Loans (continued)

Credit risk (continued)

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

BDC rating	Grade equivalent	Stage 1	Stage 2	Stage 3	Total	March 31, 2021 %
0.5–1.0	Investment grade	**2,969,455**	**188,988**	**–**	**3,158,443**	**10%**
1.5–5.0	Non-investment grade	**17,540,899**	**8,940,259**	**–**	**26,481,158**	**81%**
5.5	Watchlist	**–**	**1,641,348**	**–**	**1,641,348**	**5%**
6.0 and up	Credit-impaired	**–**	**–**	**1,150,232**	**1,150,232**	**4%**
Loans gross carrying amount		**20,510,354**	**10,770,595**	**1,150,232**	**32,431,181**	**100%**
Allowance for expected credit losses		**(395,895)**	**(715,515)**	**(414,290)**	**(1,525,700)**	
Net carrying amount		**20,114,459**	**10,055,080**	**735,942**	**30,905,481**	

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

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

Secured risk exposure	Performing loans outstanding	Impaired loans outstanding	Total	**March 31, 2021**
Secured financing[1]	**20,838,623**	**830,069**	**21,668,692**	**67%**
Partially secured financing[2]	**3,751,818**	**103,108**	**3,854,926**	**12%**
Leverage financing[3]	**6,690,508**	**217,055**	**6,907,563**	**21%**
Loans outstanding	**31,280,949**	**1,150,232**	**32,431,181**	**100%**

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

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

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

(in thousands of Canadian dollars)

9. Loans (continued)

Credit risk (continued)

BDC considers a loan past due when a client has not made a payment by the contractual due date. The following table shows the gross carrying value of loans that are past due but not classified as impaired because they are either less than three months past due or collection efforts are reasonably expected to result in repayment. These loans are included in Stage 2.

Loans past due but not impaired	Within 1 month	1 to 3 months	Over 3 months	Total
As at March 31, 2021	**261,594**	**88,438**	**42,515**	**392,547**
As at March 31, 2020	632,623	50,309	34,514	717,446

Concentrations of the total loans outstanding and undisbursed amounts of authorized loans, by province and territory and by industry sector, are set out in the tables below. The largest concentration in one individual or closely related group of clients was less than 1% as at March 31, 2021, and March 31, 2020.

Undisbursed amounts of authorized loans stood at $3,065,039 as at March 31, 2021 ($881,758 fixed rate; $2,183,281 floating rate) ($3,074,649 as at March 31, 2020 ($1,054,696 fixed rate; $2,019,953 floating rate)). The weighted-average effective interest rate was 3.89% on loan commitments (4.46% as at March 31, 2020).

		March 31, 2021		March 31, 2020
Geographic distribution	Outstanding	Commitments	Outstanding	Commitments
Newfoundland and Labrador	**869,334**	**41,447**	870,736	66,841
Prince Edward Island	**75,018**	**7,742**	78,750	2,098
Nova Scotia	**724,909**	**35,060**	676,641	82,782
New Brunswick	**520,292**	**40,245**	524,227	38,746
Quebec	**10,253,238**	**928,116**	8,960,967	943,956
Ontario	**9,038,576**	**821,886**	7,784,743	839,924
Manitoba	**861,037**	**81,165**	805,175	80,986
Saskatchewan	**865,988**	**65,576**	793,821	62,499
Alberta	**4,666,837**	**498,183**	4,131,995	483,156
British Columbia	**4,363,207**	**528,237**	3,673,584	458,736
Yukon	**115,611**	**1,155**	117,235	3,019
Northwest Territories and Nunavut	**77,134**	**16,227**	54,387	11,906
Total loans outstanding[(1)]	**32,431,181**	**3,065,039**	28,472,261	3,074,649

(in thousands of Canadian dollars)

9. Loans (continued)

Credit risk (continued)

	March 31, 2021		March 31, 2020	
Industry sector	Outstanding	Commitments	Outstanding	Commitments
Manufacturing	**7,047,791**	**788,282**	6,434,657	857,111
Wholesale and retail trade	**6,221,719**	**570,210**	5,204,352	511,853
Service industries	**4,976,814**	**460,518**	4,156,135	414,829
Tourism	**3,742,182**	**156,433**	3,295,761	273,727
Commercial properties	**3,290,244**	**151,264**	3,148,960	130,238
Construction	**2,843,645**	**356,322**	2,364,589	298,909
Transportation and storage	**1,889,402**	**206,829**	1,778,237	170,721
Resources	**1,340,224**	**231,612**	1,145,173	230,917
Other	**1,079,160**	**143,569**	944,397	186,344
Total loans outstanding[(1)]	**32,431,181**	**3,065,039**	28,472,261	3,074,649

(1) Loans commitments included $2,870,540 in the Financing segment, and $194,499 in the Credit Availability Program segment as at March 31, 2021 ($3,074,649, and nil respectively, as at March 31, 2020).

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

						March 31, 2021
BDC rating	Grade equivalent	Stage 1	Stage 2	Stage 3	Total	%
0.5-1.0	Investment grade	**291,162**	**45,511**	**–**	**336,673**	**11%**
1.5-5.0	Non-investment grade	**2,309,043**	**367,872**	**–**	**2,676,915**	**87%**
5.5	Watchlist	**–**	**51,451**	**–**	**51,451**	**2%**
6.0 and up	Credit-impaired	**–**	**–**	**–**	**–**	**0%**
Total loan commitment outstanding		**2,600,205**	**464,834**	**–**	**3,065,039**	**100%**
Allowance for expected credit losses		**(57,007)**	**(24,161)**	**–**	**(81,168)**	
Carrying value		**2,543,198**	**440,673**	**–**	**2,983,871**	

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

(in thousands of Canadian dollars)

9. Loans (continued)

Credit risk (continued)

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

				March 31, 2021
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[2]	**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's allowance for expected credit losses due to changes in stages prior to remeasurements.
(2) Includes the net remeasurement of the allowance following a transfer between stages, changes in commitments amounts, changes in credit risk and changes in model inputs and assumptions, including forward-looking macroeconomic variables.

				March 31, 2020
Allowance for expected credit losses on commitments	Stage 1	Stage 2	Stage 3	Total
Balance as at April 1, 2019	17,984	4,481	–	22,465
Provision for expected credit losses				
Transfer to Stage 1[1][3]	1,394	(1,394)	–	–
Transfer to Stage 2[1][3]	(6,258)	6,258	–	–
Net remeasurement of the allowance for expected credit losses[2][3]	2,825	7,214	–	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

(1) Provides the cumulative movement from the previous month's allowance for expected credit losses due to changes in stages prior to remeasurements.
(2) Includes the net remeasurement of the allowance following a transfer between stages, changes in commitments amounts, changes in credit risk and changes in model inputs and assumptions, including forward-looking macroeconomic variables.
(3) Comparative information as at March 31, 2020 were reclassified to provide the transfers between stages which were previously presented in net remeasurement of the allowance for expected credit losses.

(in thousands of Canadian dollars)

10.
Asset-backed securities

The following table summarizes ABS by classification of financial instruments. As at March 31, 2021, $40,793 in ABS had maturities of less than five years ($104,407 as at March 31, 2020) and $692,529 had maturities over five years ($673,431 as at March 31, 2020). The ABS may be redeemed by the issuing trust at par depending on the terms of the securitization deal if the balance of the underlying assets or, in some cases, the balance of the notes, amortizes below 10% of the original balance at issuance. No ABS were impaired as at March 31, 2021, and March 31, 2020. No allowance for expected credit losses was recorded for disbursed and undisbursed ABS at fair value through other comprehensive income as at March 31, 2021 and March 31, 2020. Refer to Note 23—*Risk management*, for additional information on credit risk associated with the ABS portfolio.

	March 31, 2021	March 31, 2020
Fair value through other comprehensive income		
Principal amount	**711,884**	762,715
Cumulative fair value appreciation (depreciation)	**11,362**	5,266
Carrying value	**723,246**	767,981
Yield	**2.27%**	2.59%
Fair value through profit or loss		
Principal amount	**9,863**	9,701
Cumulative fair value appreciation (depreciation)	**213**	156
Carrying value	**10,076**	9,857
Yield	**7.01%**	7.56%
Asset-backed securities	**733,322**	777,838

Committed amounts of authorized asset-backed securities were $624,037 as at March 31, 2021 ($238,489 as at March 31, 2020), all of which are in the Financing segment.

11.
Subordinate financing investments

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

	Within 1 year	1 to 5 years	Over 5 years	Total cost	Total fair value
As at March 31, 2021	**150,441**	**974,871**	**320,979**	**1,446,291**	**1,452,966**
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.

(in thousands of Canadian dollars)

11. Subordinate financing investments (continued)

The concentrations of subordinate financing investments and undisbursed amounts of authorized subordinate financing investments, by geographic and industry distribution, are set out in the tables below. The largest concentration in one individual or closely related group of clients as at March 31, 2021, was 2.3% of total subordinate financing investments at cost (2.7% as at March 31, 2020). The subordinate financing portfolio is composed primarily of debentures.

Undisbursed amounts of authorized subordinate financing investments were $112,871 as at March 31, 2021 ($54,967 fixed rate; $57,904 floating rate) ($176,322 as at March 31, 2020 ($130,900 fixed rate; $45,422 floating rate)). The weighted-average effective interest rate was 8.5% on subordinate financing commitments (11.5% as at March 31, 2020), excluding non-interest return.

			March 31, 2021			March 31, 2020
Geographic distribution	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Newfoundland and Labrador	**16,371**	**21,563**	**7,525**	18,402	26,509	6,875
Prince Edward Island	**9,669**	**10,300**	**–**	–	–	–
Nova Scotia	**46,832**	**27,049**	**4,000**	10,557	12,720	5,000
New Brunswick	**15,979**	**15,657**	**–**	16,044	16,387	–
Quebec	**489,770**	**450,753**	**26,656**	426,149	462,558	35,050
Ontario	**464,186**	**503,659**	**37,290**	442,600	498,251	66,251
Manitoba	**6,801**	**8,532**	**–**	1,720	3,316	10,500
Saskatchewan	**47,842**	**53,696**	**2,100**	46,224	58,169	600
Alberta	**158,724**	**193,422**	**27,550**	136,548	167,057	25,615
British Columbia	**194,661**	**159,453**	**7,750**	139,509	145,709	26,431
Yukon	**225**	**224**	**–**	325	332	–
Northwest Territories and Nunavut	**1,906**	**1,983**	**–**	2,510	2,635	–
Subordinate financing investments(1)	**1,452,966**	**1,446,291**	**112,871**	1,240,588	1,393,643	176,322

			March 31, 2021			March 31, 2020
Industry sector	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Manufacturing	**478,654**	**490,121**	**17,723**	367,429	430,194	42,104
Service industries	**411,798**	**389,167**	**37,145**	327,271	349,335	67,951
Wholesale and retail trade	**190,786**	**177,140**	**10,750**	190,756	211,079	10,400
Resources	**128,252**	**142,449**	**26,300**	105,545	133,594	9,000
Information industries	**123,367**	**118,257**	**10,603**	101,800	112,665	19,614
Construction	**45,822**	**48,163**	**7,650**	57,691	63,012	10,000
Transportation and storage	**36,751**	**47,578**	**2,700**	48,431	52,565	3,300
Educational services	**12,638**	**12,417**	**–**	11,457	12,043	11,250
Tourism	**6,288**	**9,980**	**–**	10,419	11,762	2,703
Other	**18,610**	**11,019**	**–**	19,789	17,394	–
Subordinate financing investments(1)	**1,452,966**	**1,446,291**	**112,871**	1,240,588	1,393,643	176,322

(1) Subordinate financing commitments included $3,455 in the Financing segment, $56,251 in the Growth & Transition Capital segment, $42,783 in the Capital Incentive Programs segment, $5,557 in the Venture Capital segment and $4,825 in the Credit Availability Program segment as at March 31, 2021 ($3,400, $125,641, $47,281, nil and nil respectively, as at March 31, 2020).

(in thousands of Canadian dollars)

12.

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

			March 31, 2021			March 31, 2020
Investment type	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Direct investments	**1,397,978**	**851,925**	**49,240**	692,194	633,443	33,812
Indirect Investments in Funds[1]	**1,580,590**	**985,162**	**876,138**	1,028,942	848,180	811,658
Venture capital investments[2]	**2,978,568**	**1,837,087**	**925,378**	1,721,136	1,481,623	845,470

(1) As at March 31, 2021, BDC had invested in 100 funds through its VC segment and 24 funds through its CIP segment (84 and 24 funds, respectively, as at March 31, 2020).
(2) Venture Capital commitments included $473,575 in the Venture Capital segment, $432,903 in the Capital Incentive Programs segment and $18,900 in the Credit Availability Program segment as at March 31, 2021 ($449,622, $395,848 and nil respectively, as at March 31, 2020).

The concentration by industry sector for direct investments are listed below. The largest single investment within these sectors as at March 31, 2021 was 3.35% of total venture capital direct investments at cost (3.33% as at March 31, 2020.

			March 31, 2021			March 31, 2020
Industry sector	Fair value	Cost	Commitments	Fair value	Cost	Commitments
Information technology	**835,203**	**418,072**	**23,830**	376,573	303,365	12,151
Communications	**141,868**	**100,473**	**10,031**	86,829	69,161	1,906
Electronics	**75,285**	**89,115**	**8,000**	58,792	70,836	796
Biotechnology and pharmacology	**63,498**	**58,480**	**4,232**	46,879	57,754	4,415
Medical and health	**58,198**	**45,062**	**250**	24,169	55,481	–
Industrial	**42,238**	**40,013**	**2,400**	33,799	26,705	–
Energy	**29,209**	**20,582**	**497**	27,137	19,670	482
Other	**152,479**	**80,128**	**–**	38,016	30,471	14,062
Total direct investments	**1,397,978**	**851,925**	**49,240**	692,194	633,443	33,812

(in thousands of Canadian dollars)

13.
Property and equipment

				2021
	Computer and telecommunications equipment	Furniture, fixtures and equipment	Leasehold improvements	Total
Cost				
Balance as at March 31, 2020	**26,310**	**26,712**	**48,423**	**101,445**
Additions	**1,790**	**3,297**	**11,621**	**16,708**
Derecognition[(1)]	**(870)**	**(1,431)**	**(1,886)**	**(4,187)**
Balance as at March 31, 2021	**27,230**	**28,578**	**58,158**	**113,966**
Accumulated depreciation				
Balance as at March 31, 2020	**11,838**	**8,698**	**13,205**	**33,741**
Depreciation	**4,532**	**2,622**	**4,019**	**11,173**
Derecognition[(1)]	**(858)**	**(1,201)**	**(1,882)**	**(3,941)**
Balance as at March 31, 2021	**15,512**	**10,119**	**15,342**	**40,973**
Property and equipment as at March 31, 2021	**11,718**	**18,459**	**42,816**	**72,993**

(1) Derecognition of $4.2 million relates to property and equipment that are no longer in use.

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

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

No property and equipment were impaired as at March 31, 2021 and 2020.

As at March 31, 2021, and March 31, 2020, there were no significant contractual commitments to acquire property and equipment.

(in thousands of Canadian dollars)

14.
Intangible assets

	Acquired systems and software applications	Internally generated systems and software applications	Projects in progress	Total
				2021
Cost				
Balance as at March 31, 2020	**94,195**	**20,093**	**21,576**	**135,864**
Additions, separately acquired	**–**	**–**	**9,555**	**9,555**
Derecognition[1]	**(198)**	**–**	**–**	**(198)**
Available for use	**–**	**22,739**	**(22,739)**	**–**
Balance as at March 31, 2021	**93,997**	**42,832**	**8,392**	**145,221**
Accumulated amortization				
Balance as at March 31, 2020	**88,619**	**5,720**	**–**	**94,339**
Amortization	**3,781**	**7,512**	**–**	**11,293**
Derecognition[1]	**(252)**	**–**	**–**	**(252)**
Balance as at March 31, 2021	**92,148**	**13,232**	**–**	**105,380**
Intangible assets as at March 31, 2021	**1,849**	**29,600**	**8,392**	**39,841**

(1) Derecognition of $0.2 million relates to intangible assets that are no longer in use.

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

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

As at March 31, 2021, and March 31, 2020, there were no significant contractual commitments to acquire systems and software.

(in thousands of Canadian dollars)

15.
Leases

Right-of-use assets

	March 31, 2021
	Premise leases
Cost	
Balance as at April 1, 2020	**141,281**
Additions	**6,821**
Disposal	**(2,656)**
Balance as at March 31, 2021	**145,446**
Accumulated depreciation	
Balance as at April 1, 2020	**13,758**
Depreciation	**15,306**
Disposal	**(2,656)**
Balance as at March 31, 2021	**26,408**
Right-of-use assets as at March 31, 2021	**119,038**

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

(in thousands of Canadian dollars)

15. Leases (continued)

Lease liabilities

Maturity analysis—contractual undiscounted cash flow for lease liabilities

	March 31, 2021	March 31, 2020
Within 1 year	**15,276**	14,129
1 to 5 years	**58,818**	55,640
After 5 years	**70,922**	80,243
Total undiscounted lease liabilities	**145,016**	150,012

As at March 31, 2021, lease liabilities included in the Consolidated Statement of Financial Position totalled $132,457 of which $13,328 was short-term and $119,129 was long-term ($137,201 as at March 31, 2020 of which $12,063 was short-term and $125,138 was long-term).

Amounts recognized in the Consolidated Statement of Income (Loss)
The following table summarizes amounts recognized in the Consolidated Statement of Income (Loss) for the years ended March 31, 2021 and March 31, 2020.

	March 31, 2021	March 31, 2020
Interest on lease liabilities	**2,082**	1,984
Payments of non-lease components	**15,270**	16,787
Expenses relating to short-term leases	**–**	170
	17,352	18,941

Lease commitments

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

	March 31, 2021	March 31, 2020
Within 1 year	**15,816**	16,054
1 to 5 years	**81,302**	63,756
After 5 years	**87,442**	113,190
Total	**184,560**	193,000

Leases not yet commenced to which BDC is committed amounted to $800 as at March 31, 2021 ($3,190 as at March 31, 2020).

(in thousands of Canadian dollars)

15. Leases (continued)

Premise leases

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

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

Renewal options

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

16.

Other assets

	March 31, 2021	March 31, 2020
Financial instruments measured at amortized cost		
Interest receivable on derivatives	**728**	722
Accounts receivable from advisory clients	**1,393**	1,623
Other	**6,679**	8,681
	8,800	11,026
Prepaids and other	**26,902**	17,396
Other assets	**35,702**	28,422

17.

Accounts payable and accrued liabilities

	March 31, 2021	March 31, 2020
Financial instruments measured at amortized cost		
Current		
Salaries and benefits payable	**78,841**	80,009
Accounts payable	**15,400**	15,588
Other	**44,161**	17,181
	138,402	112,778
Long-term accrued liabilities	**56,405**	45,514
Accounts payable and accrued liabilities	**194,807**	158,292

(in thousands of Canadian dollars)

18.
Borrowings

The table below presents the outstanding short-term notes.

				March 31, 2021		March 31, 2020
Maturity date	Effective rate	Currency	Principal amount [1]	Carrying value	Principal amount [1]	Carrying value
Short-term notes/ financial liabilities measured at amortized cost						
2021	0.22% - 1.38%	CAD	**–**	**–**	19,350,000	19,356,337
	0.00%	CAD	**–**	**–**	4,700	4,700
	0.10%	USD	**–**	**–**	844	1,187
2022	0.072% - 0.20%	CAD	**13,336,000**	**13,336,374**	–	–
Total short-term notes				**13,336,374**		19,362,224

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

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

					March 31, 2021		March 31, 2020
Maturity date	2021 Effective rate [1]	2020 Effective rate [1]	Currency	Principal amount [2]	Carrying value	Principal amount [2]	Carrying value
Long-term notes/ financial liabilities measured at amortized cost							
2022	1.42% - 2.37%	1.42% - 2.37%	CAD	**270,000**	**271,239**	270,000	271,180
2023	0.35% - 2.16%	1.41% - 2.16%	CAD	**755,000**	**757,653**	650,000	652,519
2024	1.38% - 2.27%	1.38% - 2.27%	CAD	**735,000**	**738,518**	735,000	738,423
2025	0.43% - 2.45%	1.14% - 2.45%	CAD	**1,560,000**	**1,566,192**	1,375,000	1,380,122
2026	0.44% - 2.27%	1.23% - 2.27%	CAD	**395,000**	**396,230**	300,000	301,051
2027	0.49% - 2.09%	1.14% - 2.09%	CAD	**585,000**	**586,907**	435,000	436,629
2028	0.51% - 2.10%	1.45% - 2.10%	CAD	**405,000**	**405,982**	160,000	160,693
2029	1.62% - 2.11%	1.62% - 2.11%	CAD	**105,000**	**105,703**	105,000	105,704
2030	0.55% - 1.14%	1.14%	CAD	**80,000**	**80,149**	25,000	25,011
					4,908,573		4,071,332
Long-term notes/ designated as at fair value through profit or loss							
2021		1.16%	JPY	**–**	**–**	260,000	3,447
2022	0.06% - 0.16%	0.90% - 1.41%	CAD	**124,139**	**127,662**	124,139	132,287
					127,662		135,734
Total long-term notes					**5,036,235**		4,207,066

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

(in thousands of Canadian dollars)

18. Borrowings (continued)

The total carrying value of the long-term notes designated at fair value through profit or loss as at March 31, 2021, was $3,523 higher than the total principal amount due at maturity, given respective exchange rates, fair value adjustments and interest accrued (as at March 31, 2020, it was $9,041 higher).

None of the liabilities designated at FVTPL was derecognized during the year ended March 31, 2021 and March 31, 2020.

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

	March 31, 2021	March 31, 2020
Interest-bearing notes	**5,036,235**	4,203,619
Other structured notes	**–**	3,447
Total long-term notes	**5,036,235**	4,207,066

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

		Cash flows		Non-cash changes			
	Balance at beginning of period	Issuances	Repayments	Fair value changes	Accrued interests	Changes in foreign exchange rate	Balance at end of period
2021							
Measured at amortized cost							
Short-term notes	**19,362,224**	**21,491,000**	**(27,510,828)**	**–**	**(5,963)**	**(59)**	**13,336,374**
Long-term notes	**4,071,332**	**835,000**	**–**	**–**	**2,241**	**–**	**4,908,573**
	23,433,556	**22,326,000**	**(27,510,828)**	**–**	**(3,722)**	**(59)**	**18,244,947**
Designated at fair value through profit or loss							
Long-term notes	**135,734**	**–**	**(2,554)**	**(4,656)**	**(16)**	**(846)**	**127,662**
	23,569,290	**22,326,000**	**(27,513,382)**	**(4,656)**	**(3,738)**	**(905)**	**18,372,609**

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

19.

Net defined benefit asset or liability

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

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

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

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

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

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

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

The registered pension plan is either partly or wholly funded in accordance with actuarially determined amounts required to satisfy employee benefit entitlements. Benefits accruing to members of the contributory component of the registered pension plan are also funded by contributions by plan participants. BDC's best estimate of contributions to be paid for fiscal 2022 for the registered pension plan is $42.7 million. The supplemental pension plans are partly funded by BDC and BDC's best estimate of contributions for fiscal 2022 is $9.7 million. The other benefit plans are wholly unfunded. Estimated BDC-paid benefits for other post-employment benefit plans (including the retirement allowance plan) for fiscal 2022 amount to $6.6 million.

(in thousands of Canadian dollars)

19. Net defined benefit asset or liability (continued)

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

	Registered pension plan		Supplemental pension plans		Other plans		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
Fair value of net plan assets at beginning of year	**1,536,144**	1,635,482	**74,296**	78,254	**–**	–	**1,610,440**	1,713,736
Interest income	**64,968**	55,661	**3,312**	2,778	**–**	–	**68,280**	58,439
Employer contributions	**23,812**	27,548	**8,373**	7,809	**–**	–	**32,185**	35,357
Participant contributions	**24,912**	26,179		–	**–**	–	**24,912**	26,179
Benefit payments from plan	**(62,049)**	(49,107)	**(5,134)**	(4,671)	**–**	–	**(67,183)**	(53,778)
Administrative expenses paid from plan assets	**(1,636)**	(1,428)	**(146)**	(129)	**–**	–	**(1,782)**	(1,557)
Remeasurements								
Return on plan assets (excluding interest income)	**182,229**	(158,191)	**4,584**	(9,745)	**–**	–	**186,813**	(167,936)
Fair value of net plan assets at end of year	**1,768,380**	1,536,144	**85,285**	74,296	**–**	–	**1,853,665**	1,610,440
Defined benefit obligation at beginning of year	**1,494,363**	1,614,999	**144,278**	154,777	**176,461**	205,683	**1,815,102**	1,975,459
Current service cost	**45,082**	53,400	**3,640**	4,033	**6,761**	8,909	**55,483**	66,342
Interest expense	**62,192**	54,075	**6,023**	5,183	**7,363**	6,876	**75,578**	66,134
Benefit payments from plan	**(62,049)**	(49,107)	**(5,134)**	(4,671)		–	**(67,183)**	(53,778)
Benefit payments from employer	**–**	–	**–**	–	**(6,893)**	(5,735)	**(6,893)**	(5,735)
Participant contributions	**24,912**	26,179	**–**	–	**–**	–	**24,912**	26,179
Remeasurements								
Effect of changes in demographic assumptions	**(5,518)**	–	**425**	–	**(7,534)**	(11,360)	**(12,627)**	(11,360)
Effect of changes in financial assumptions	**204,378**	(215,470)	**17,858**	(20,336)	**23,125**	(26,655)	**245,361**	(262,461)
Effect of experience adjustments	**224**	10,287	**(1,910)**	5,292	**(1,197)**	(1,257)	**(2,883)**	14,322
Defined benefit obligation at end of year	**1,763,584**	1,494,363	**165,180**	144,278	**198,086**	176,461	**2,126,850**	1,815,102
Total net defined benefit asset	**4,796**	41,781	**–**	–	**–**	–	**4,796**	41,781
Total net defined benefit liability	**–**	–	**79,895**	69,982	**198,086**	176,461	**277,981**	246,443

(in thousands of Canadian dollars)

19. Net defined benefit asset or liability (continued)

	Registered pension plan		Supplemental pension plans		Other plans		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
Expense recognized in net income								
Current service cost	**45,082**	53,400	**3,640**	4,033	**6,761**	8,909	**55,483**	66,342
Interest expense on defined benefit obligation	**62,192**	54,075	**6,023**	5,183	**7,363**	6,876	**75,578**	66,134
Interest income on plan assets	**(64,968)**	(55,661)	**(3,312)**	(2,778)	**–**	–	**(68,280)**	(58,439)
Administrative expenses	**1,636**	1,428	**146**	129	**–**	–	**1,782**	1,557
Expense recognized in net income	**43,942**	53,242	**6,497**	6,567	**14,124**	15,785	**64,563**	75,594
Remeasurements recognized in OCI								
Effect of changes in demographic assumptions	**5,518**	–	**(425)**	–	**7,534**	11,360	**12,627**	11,360
Effect of changes in financial assumptions	**(204,378)**	215,470	**(17,858)**	20,336	**(23,125)**	26,655	**(245,361)**	262,461
Effect of experience adjustments	**(224)**	(10,287)	**1,910**	(5,292)	**1,197**	1,257	**2,883**	(14,322)
Return on plan assets (excluding interest income)	**182,229**	(158,191)	**4,584**	(9,745)	**–**	–	**186,813**	(167,936)
Remeasurement gain (loss) recognized in OCI	**(16,855)**	46,992	**(11,789)**	5,299	**(14,394)**	39,272	**(43,038)**	91,563

(in thousands of Canadian dollars)

19. Net defined benefit asset or liability (continued)

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

			March 31, 2021			March 31, 2020
Investment type	Quoted on active market	Unquoted	Total	Quoted on active market	Unquoted	Total
Investments						
Cash	**18,908**	**–**	**18,908**	24,108	–	24,108
Short-term investments	**–**	**3,698**	**3,698**	–	3,678	3,678
Securities purchased under reverse repuchase agreements	**–**	**528,495**	**528,495**	–	319,056	319,056
Bonds						
Government of Canada	**–**	**364,650**	**364,650**	–	286,248	286,248
Canadian provinces	**–**	**545,788**	**545,788**	–	426,753	426,753
Canadian corporate and municipal	**–**	**354,541**	**354,541**	–	255,678	255,678
Equity investments						
Canadian equity	**–**	**200,704**	**200,704**	109,937	145,644	255,581
Global equity	**–**	**755,317**	**755,317**	457,636	–	457,636
Private market	**–**	**186,778**	**186,778**	–	193,951	193,951
Other	**–**	**45,358**	**45,358**	–	42,609	42,609
Investment-related liabilities						
Securities sold under repurchase agreements	**–**	**777,613**	**777,613**	–	323,875	323,875
Securities sold short	**–**	**372,959**	**372,959**	–	330,983	330,983
Fair value of net plan assets	**18,908**	**1,834,757**	**1,853,665**	591,681	1,018,759	1,610,440

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

According to the policy, the portfolio can be divided into three large categories of investments: fixed income assets, equity investments and private market investments. The target for fixed income assets is set at 40.0% (40.0% in 2020) of the fair market value of the portfolio. The target for investments in equity should represent approximately 50.0% (50.0% in 2020) of the fair market value of the portfolio: 40.0% in global equity (32.0% in 2020) and 10.0% in Canadian equity (18.0% in 2020). The target for private market investments should represent approximately 10.0% (10.0% in 2020) of the fair market value of the portfolio. The positioning of the asset mix is reviewed monthly to assess the need for rebalancing.

(in thousands of Canadian dollars)

19. Net defined benefit asset or liability (continued)

In fiscal 2020, the Pension Fund introduced the Liability Driven Investing ("LDI") bond portfolio with an inflation overlay. As part of the inflation overlay, repurchase agreements are contracted to fund the purchase of federal real return bonds and reverse repurchase agreements are contracted to obtain the federal nominal bonds to deliver when selling them short. Such repurchase and reverse repurchase positions are rolled over on an annual basis to maintain a synthetic long federal real return bond and short federal nominal bond position that delivers the inflation performance. In addition, the Pension Fund initiated in December 2020 a bond overlay with the LDI bond portfolio to achieve a target interest rate hedge ratio. The bond overlay uses repurchase agreements to fund the purchase of additional exposure to the LDI bond portfolio. The repurchase agreements are rolled over periodically (up to 1 year) to maintain the targeted interest rate hedge.

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

	Registered pension plan		Supplemental pension plans		Other plans	
	2021	2020	**2021**	2020	**2021**	2020
Discount rate	**3.50%**	4.25%	**3.50%**	4.25%	**3.50%**	4.25%
Inflation rate	**2.00%**	2.00%	**2.00%**	2.00%	**2.00%**	2.00%
Rate of salary increase	**3.20%**	3.00%	**3.20%**	3.00%	**3.20%**	3.00%
Rate of pension increase	**2.00%**	2.00%	**2.00%**	2.00%	**n/a**	n/a

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

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

> The 2014 Public Sector Mortality Table with mortality improvement Scale CPM-B, from the Canadian Pensioners' Mortality (CPM) study published by the Canadian Institute of Actuaries in February 2014, was used for 2021 and 2020.

As at March 31, 2021, the weighted-average duration of the defined benefit obligation was 17.4 years (2020: 16.5 years). For measurement purposes, health care cost trends were assumed to be as follows:

Medical (drugs)

> 5.58% in 2021, decreasing by 0.083% each year to 4.0% in 2040
(5.67% in 2020, decreasing by 0.083% each year to 4.0% in 2040)

Other medical costs

> 3.8% per year
(3.9% per year in fiscal 2020)

Dental costs

> 4.0% per year
(4.0% per year in fiscal 2020)

Weighted-average health care trend (Benefit obligation)

> 4.97% in 2021, decreasing by 0.053% each year to 3.96% in 2040
(5.04% in 2020, decreasing by 0.047% each year to 3.91% in 2040)

(in thousands of Canadian dollars)

19. Net defined benefit asset or liability (continued)

Sensitivity of assumptions

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

		March 31, 2021			March 31, 2020	
Increase (decrease) of the present value of the defined benefit obligation	Registered pension plan	Supplemental pension plans	Other plans	Registered pension plan	Supplemental pension plans	Other plans
Discount rate						
Impact of: 1% increase	**(272,982)**	**(22,882)**	**(29,892)**	(207,786)	(18,926)	(24,972)
1% decrease	**363,878**	**29,803**	**38,749**	274,360	24,754	32,012
Rate of salary increase						
Impact of: 1% increase	**47,323**	**13,734**	**433**	32,234	10,099	438
1% decrease	**(46,305)**	**(8,099)**	**(411)**	(31,704)	(6,372)	(416)
Rate of price inflation						
Impact of: 1% increase	**324,802**	**21,802**	**885**	248,734	18,589	795
1% decrease	**(252,340)**	**(16,838)**	**(757)**	(193,527)	(14,448)	(692)
Rate of pension increase						
Impact of: 1% increase	**267,607**	**28,253**	**–**	207,155	23,489	–
1% decrease	**(213,562)**	**(19,617)**	**–**	(165,158)	(16,752)	–
Health care cost trend						
Impact of: 1% increase	**–**	**–**	**30,540**	–	–	25,527
1% decrease	**–**	**–**	**(24,166)**	–	–	(20,369)
Post-retirement mortality						
Impact of: 1 year older	**(45,434)**	**(5,053)**	**(6,256)**	(37,040)	(4,006)	(5,088)
1 year younger	**45,320**	**5,040**	**6,397**	36,731	3,961	5,185

(in thousands of Canadian dollars)

20.
Other liabilities

	March 31, 2021	March 31, 2020
Financial instruments, measured at amortized cost		
Deposits from clients	**33,973**	47,157
Expected credit losses on loan commitments	**81,168**	67,059
Expected credit losses on loan guarantees	**25,459**	–
Other(1)	**1,529**	1,523
	142,129	115,739
Deferred income	**7,414**	7,469
Other(1)	**1,085**	–
Total other liabilities	**150,628**	123,208

(1) All other liabilities are non-current.

21.
Share capital

An unlimited number of common shares, having a par value of $100 each, is authorized. As at March 31, 2021, there were 115,119,000 common shares outstanding (40,089,000 as at March 31, 2020).

As per BDC's Capital Management and Dividend Policy, on the date of approval of the fiscal 2021 Consolidated Financial Statements, a $735.0 million dividend was declared based on fiscal 2021 performance and no dividend was paid in fiscal 2021 based on fiscal 2020 performance.

In fiscal 2021, 75,030,000 common shares were issued by BDC for $7.503 billion (14,060,000 for $1.406 billion in 2020).

Reconciliation of the number of common shares issued and outstanding

	2021	2020
As at beginning of the year	**40,089,000**	26,029,000
Shares issued	**75,030,000**	14,060,000
As at end of the year	**115,119,000**	40,089,000

On May 19, 2021, BDC issued 3,850,000 common shares for cash proceeds of $385.0 million, which represents a capital injection in support of the Cleantech Practice and Venture Capital Catalyst Initiative.

22.
Capital management

Statutory limitations

As per the BDC Act, the debt-to-equity ratio of BDC may not exceed 12:1. This ratio is defined as the aggregate of borrowings recognized in the Consolidated Statement of Financial Position and contingent liabilities that exist in the form of financial guarantees issued by BDC over equity attributable to BDC's shareholder, which excludes accumulated other comprehensive income (loss). BDC's ratio as at March 31, 2021 was 1.0:1 (2.7:1 as at March 31, 2020).

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 (such as hybrid capital instruments), must not at any time exceed $20.0 billion per an amendment to the *Business Development Bank of Canada Act*, 1995. The maximum amount was $4.5 billion prior to April 22, 2020 and $15.0 billion from April 22, 2020 to September 30, 2020. As at March 31, 2021, these amounts totalled $11.5 billion ($4.0 billion as at March 31, 2020).

During 2021 and 2020, BDC met both of these statutory limitations.

Capital adequacy

BDC's Capital Management Framework is outlined in its Capital Management and Dividend Policy and is aligned with:

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

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

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

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

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

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

BDC monitors its capital status on an ongoing basis by comparing its available capital to its required capital.

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

BDC's ICAAP excludes Capital Incentive Programs (CIP) and the Credit Availability Program (CAP), as these government programs are managed by BDC under a specific capital allocation from the shareholder.

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

(in thousands of Canadian dollars)

22. Capital management (continued)

Available capital

Modifications arising from the new Capital Management framework primarily relate to the allowance for expected credit losses 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 management operating range definition and the update of economic capital models validated by third parties.

The following table shows BDC's available capital reconciliation:

	March 31, 2021	March 31, 2020(2)
Equity attributable to BDC's shareholder	**18,004,095**	8,891,660
Adjustments to available capital		
AOCI on cash flow hedges	**(2,226)**	(3,497)
Intangible assets, net of accumulated amortization	**(39,841)**	(41,525)
Net defined benefit asset	**(4,796)**	(41,781)
Adjustments for allowance for expected credit losses	**378,696**	239,520
Portion of equity attributable to CIP(1)	**(1,276,630)**	(1,022,581)
Portion of equity attributable to CAP	**(8,131,500)**	(944,000)
Available capital	**8,927,798**	7,077,796

(1) In fiscal 2021, modifications were made to the reportable segments structure resulting in the reclassification of comparative information. As part of the modifications to the reportable segments structure, the portfolios and results for the Cleantech Practice segment were transferred to the Capital Incentive Programs segment (CIP), which was previously named Venture Capital Incentive Programs. Comparative information relating to the portion of equity attributable to CIP were reclassified to include the equity attributable to the Cleantech Practice segment. Comparative information relating to the portion of equity attributable to the Indigenous Growth Fund (IGF) was also reclassified to CIP.
(2) BDC`s available capital as at March 31, 2020 is calculated using the previous framework.

BDC's required capital represents the capital required to support BDC's risk profile and includes the following element:

> Economic Capital quantifies the capital required to cover credit, investment, operational, business and market risks;

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

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

23.

Risk management

Governance

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

Nature and extent of risks arising from financial instruments

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

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

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

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

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

As at March 31, 2021, and March 31, 2020, none of the notes were past due and none had experienced a deterioration in their credit rating. The maximum exposure to credit risk of ABS is limited to the carrying value of the securities. Refer to Note 10—*Asset-backed securities*, for additional information on this portfolio.

BDC is also exposed to credit risk on its ABS commitments. Maximum exposure to credit risk is limited to the committed amount. Refer to Note 10—*Asset-backed securities* for additional information.

23. Risk management (continued)

Credit risk (continued)

Borrowers and investees

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

> the use of an internal credit risk rating classification;

> credit policies, guidelines and directives, communicated to officers whose activities and responsibilities include credit granting and risk assessment, which ensure early recognition of problem accounts and immediate implementation of steps to protect BDC's assets;

> independent reviews by Internal Audit of credit valuation, risk classification and credit management procedures, which include reporting the results to senior management, the President and Chief Executive Officer, and the Audit and Conduct Committee;

> approval of larger transactions by the Board Risk Committee and the Board Investment Committee, based on recommendations made by the Credit Risk Committee;

> review and assessment by the Clean Technology Special Committee of all risks associated with the initiative;

> monitoring of portfolio concentrations to protect BDC from being overly concentrated in any one province or industry sector;

> monitoring to ensure that exposure to a single borrower or associated borrowers, unless approved by the Board of Directors, does not represent more than 10% of the shareholder's equity;

> an annual review process to ensure appropriate classification of individual credit facilities;

> the conduct of semi-annual valuations of investments; and

> a watchlist report recording accounts with evidence of weaknesses, as well as an impaired loan report covering loans that show impairment.

The maximum exposure to credit risk from borrowers and investees is limited to the carrying amount of the loans and subordinate financing investments. Refer to Note 9—*Loans* and Note 11—*Subordinate financing investments* for additional information on loans and investment portfolios.

BDC is also exposed to credit risk on its loan commitments and financial guarantees, which include loan guarantees. Maximum exposure to credit risk is limited to the committed amount or, in the case of financial guarantees, to the maximum amount payable under the guarantees. Refer to Note 9—*Loans* and Note 26—*Guarantees and contingent liabilities* for additional information.

Counterparties to Treasury activities

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

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

BDC limits its exposure to credit risk by dealing only with financial institutions that have credit ratings in accordance with the Treasury Risk Policy. As at March 31, 2021, and March 31, 2020, BDC had no significant concentrations in any individual financial institution.

(in thousands of Canadian dollars)

23. Risk management (continued)

Credit risk (continued)

Counterparties to Treasury activities (continued)

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

Counterparty credit risk exposure	Counterparty ratings		
	AA- to AA+	A- to A+	Total
Gross positive replacement cost	**1,156**	**3,739**	**4,895**
Impact of master netting agreements	**–**	**(2,258)**	**(2,258)**
Replacement cost (after master netting agreements)—March 31, 2021	**1,156**	**1,481**	**2,637**
Replacement cost (after master netting agreements)—March 31, 2020	4,252	3,953	8,205
Number of counterparties			
March 31, 2021	**2**	**4**	**6**
March 31, 2020	2	5	7

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

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

Counterparty rating	**March 31, 2021**	March 31, 2020
Rated AA- to AA+	**298,477**	263,548
Rated A- to A+	**502,038**	1,557,849
Cash and cash equivalents	**800,515**	1,821,397

Market risk

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

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. For BDC, the risk and potential variability in earnings arise primarily when cash flows associated with interest-sensitive assets and liabilities have different repricing dates. A positive interest rate gap exists when interest-sensitive assets exceed interest-sensitive liabilities for a specific maturity or repricing period. A positive gap will result in an increase in net interest income when market interest rates rise, since assets reprice earlier than liabilities. The opposite impact will occur when market interest rates fall. As set out in the Treasury Risk Policy, BDC manages market risk by matching the terms of assets and liabilities. As a result, BDC structured notes are economically hedged, using derivatives, to eliminate market risks (refer to Note 8—*Derivative financial instruments*, for additional information).

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

(in thousands of Canadian dollars)

23. Risk management (continued)

Market risk (continued)

Interest rate risk (continued)

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

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

	March 31, 2021		March 31, 2020	
	200 basis points in interest rate		200 basis points in interest rate	
	Increase	Decrease	Increase	Decrease
Net interest income sensitivity	**33,800**	**(33,800)**	33,600	(33,600)
Net interest income sensitivity (%)	**2.58**	**(2.58)**	2.69	(2.69)

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

	Immediately rate-sensitive	Within 3 months(1)	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive(2)	Allowance and fair value	Total
Assets								
Cash and cash equivalents	**800,515**	**–**	**–**	**–**	**–**	**–**	**–**	**800,515**
Derivative assets	**–**	**2,718**	**–**	**–**	**–**	**2,177**	**–**	**4,895**
Loans	**18,262,349**	**1,030,245**	**1,046,656**	**7,591,151**	**3,350,548**	**1,150,232**	**(1,525,700)**	**30,905,481**
Asset-backed securities	**–**	**18**	**–**	**40,153**	**681,576**	**–**	**11,575**	**733,322**
Subordinate financing investments	**498,501**	**5,045**	**22,717**	**346,292**	**105,088**	**468,648**	**6,675**	**1,452,966**
Venture capital investments	**–**	**–**	**–**	**–**	**–**	**1,837,087**	**1,141,481**	**2,978,568**
Other	**–**	**–**	**–**	**–**	**–**	**272,370**	**–**	**272,370**
	19,561,365	**1,038,026**	**1,069,373**	**7,977,596**	**4,137,212**	**3,730,514**	**(365,969)**	**37,148,117**
Liabilities and equity								
Derivative liabilities	**–**	**–**	**–**	**–**	**–**	**2,278**	**–**	**2,278**
Short-term notes	**–**	**13,336,374**	**–**	**–**	**–**	**–**	**–**	**13,336,374**
Long-term notes	**–**	**100,645**	**298,256**	**3,458,592**	**1,178,742**	**–**	**–**	**5,036,235**
Other	**–**	**–**	**–**	**–**	**–**	**755,873**	**–**	**755,873**
Total equity	**–**	**–**	**–**	**–**	**–**	**18,017,357**	**–**	**18,017,357**
	–	**13,437,019**	**298,256**	**3,458,592**	**1,178,742**	**18,775,508**	**–**	**37,148,117**
Total gap position before derivatives								
March 31, 2021	**19,561,365**	**(12,398,993)**	**771,117**	**4,519,004**	**2,958,470**	**(15,044,994)**	**(365,969)**	**–**
March 31, 2020	18,051,810	(18,519,667)	775,215	4,577,504	2,606,701	(6,384,270)	(1,107,293)	–
Total derivative position	**–**	**(124,139)**	**124,139**	**–**	**–**	**–**	**–**	**–**
Total gap position March 31, 2021	**19,561,365**	**(12,523,132)**	**895,256**	**4,519,004**	**2,958,470**	**(15,044,994)**	**(365,969)**	**–**
Total gap position March 31, 2020	18,051,810	(18,646,360)	777,769	4,701,643	2,606,701	(6,384,270)	(1,107,293)	–

(1) This grouping includes asset-backed securities, short-term notes and long-term notes for which interest rates reset monthly. The short-term notes and long-term notes are used to fund floating-rate assets, the majority of which are categorized as immediately rate sensitive.
(2) Assets, liabilities and equities that are non-rate sensitive have no specific maturity.

(in thousands of Canadian dollars)

23. Risk management (continued)

Market risk (continued)

Foreign exchange risk

Foreign exchange risk arises when there is a difference between assets and liabilities held in foreign currencies. Foreign exchange risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. BDC's policy and practice is to economically hedge borrowings, subordinate financing investments and loans in foreign currencies so that the residual exposure to foreign exchange risk is not significant. Venture capital investments are hedged following the occurrence of a liquidity event. Refer to Note 8—*Derivative financial instruments*, for more information.

Venture capital market risk

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

The following table represents a sensitivity analysis that aims to assess potential impact of general market repricing on fair value of investments.

				March 31, 2021
		Fair value movements under sensitivity shocks		
	Fair value	-10%	-25%	-50%
Venture Capital	**2,152,971**	**(215,297)**	**(538,243)**	**(1,076,486)**
Capital Incentive Programs	**674,655**	**(67,466)**	**(168,664)**	**(337,328)**
Credit Availability Program	**150,942**	**(15,094)**	**(37,736)**	**(75,471)**
March 31, 2021	**2,978,568**	**(297,857)**	**(744,643)**	**(1,489,285)**

For comparative purposes repricing in the publicly traded markets resulted in a peak to trough shock of 35%, 45% and 37%, respectively, for the technology bubble (2000-2001), financial crisis (2008-2009) and COVID-19 pandemic crisis (2020) for the S&P TSX index, while shocks for the NASDAQ index amounted to of 59%, 48% and 30%, respectively.

	Tech Bubble		Subprime		COVID-19	
	S&P/TSX	NASDAQ	S&P/TSX	NASDAQ	S&P/TSX	NASDAQ
Shock	-35%	-59%	-45%	-48%	-37%	-30%
Peak date	Sept. 1, 2000	March 10, 2000	August 29, 2008	August 14, 2008	Feb. 20, 2020	Feb. 19, 2020
Through date	August 31, 2001	March 9, 2001	March 9, 2009	March 9, 2009	March 23, 2020	March 23, 2020
Number of days	364	364	192	207	32	33

As BDC's venture capital investments are fully capitalized, any movement in equity prices has a null effect on the capital status as both available and required capital move simultaneously by the same level. Nonetheless, movements in equity prices will impact net income as well as proceeds from divesture of investments. To manage this risk, BDC uses a rigorous selection process of investments and works closely with its investee companies.

Management reviews all transactions. Larger investment transactions that exceed delegations residing with management are recommended by management to the Board Investment Committee which, in turn, may recommend them to the Board, as required. Other transactions will be recommended for review by the Board Risk Committee, more specifically by the Executive Vice President and Chief Risk Officer.

(in thousands of Canadian dollars)

23. Risk management (continued)

Liquidity risk

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

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

	Within 1 year	1 to 5 years	Over 5 years	No fixed maturity	Total
Accounts payable and accrued liabilities	**138,402**	**56,405**	**–**	**–**	**194,807**
Short-term notes[1]	**13,340,838**	**–**	**–**	**–**	**13,340,838**
Long-term notes[1]	**464,806**	**3,617,253**	**1,196,855**	**–**	**5,278,914**
Other financial liabilities	**35,502**	**–**	**–**	**–**	**35,502**
	13,979,548	**3,673,658**	**1,196,855**	**–**	**18,850,061**
Commitments					
Loans	**3,065,039**	**–**	**–**	**–**	**3,065,039**
Asset-backed securities[2]	**624,037**	**–**	**–**	**–**	**624,037**
Subordinate financing investments	**112,871**	**–**	**–**	**–**	**112,871**
Venture capital investments[3]	**–**	**–**	**–**	**925,378**	**925,378**
	3,801,947	**–**	**–**	**925,378**	**4,727,325**
Total as at March 31, 2021	**17,781,495**	**3,673,658**	**1,196,855**	**925,378**	**23,577,386**

(1) Short-term and long-term notes reflect the future payments that will be paid as per the contractual note agreements.
(2) Commitments are presented at the earliest possible liquidity event.
(3) Commitments are mainly related to participation in funds in which BDC is legally committed to invest. Timing of investments will vary, depending on funds' investment requirements, and should occur over the next several years.

	Within 1 year	1 to 5 years	Over 5 years	No fixed maturity	Total
Accounts payable and accrued liabilities	112,778	45,514	–	–	158,292
Short-term notes[1]	19,379,968	–	–	–	19,379,968
Long-term notes[1]	105,134	3,695,421	739,038	–	4,539,593
Other financial liabilities	48,680	–	–	–	48,680
	19,646,560	3,740,935	739,038	–	24,126,533
Commitments					
Loans	3,074,649	–	–	–	3,074,649
Asset-backed securities[2]	238,489	–	–	–	238,489
Subordinate financing investments	176,322	–	–	–	176,322
Venture capital investments[3]	–	–	–	845,470	845,470
	3,489,460	–	–	845,470	4,334,930
Total as at March 31, 2020	23,136,020	3,740,935	739,038	845,470	28,461,463

(1) Short-term and long-term notes reflect the future payments that will be paid as per the contractual note agreements.
(2) Commitments are presented at the earliest possible liquidity event.
(3) Commitments are mainly related to participation in funds in which BDC is legally committed to invest. Timing of investments will vary, depending on funds' investment requirements, and should occur over the next several years.

23. Risk management (continued)

Liquidity risk (continued)

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

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

> providing for a minimum level of short-term assets over short-term liabilities to cover commitment, market, systemic and operational risks;

> minimizing the unproductive cash balance in the cash account; and

> achieving a return on liquid assets in excess of cost while protecting BDC's capital.

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

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

> The minimum liquidity level covers at least the net outflows scheduled for the next five working days. As at March 31, 2021 the maximum liquidity level was not to exceed 15 days of net cash outflows (30 days as at March 31, 2020)

> The maturity profile requires 75% of the total liquidity to be invested in securities maturing within 100 days.

> The concentration profile requires that no more than 50% of the portfolio be invested in securities issued or guaranteed by Canadian provinces.

The cash and cash equivalents received from derivative counterparties to cover credit risk exposure as per the Credit Support Annex of the International Swap and Derivatives Association agreements are not included in the liquidity level and limits. As of March 31, 2021, the carrying amount of these items of collateral was $nil ($1,187 at March 31, 2020).

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

Liquidity level (in millions of Canadian dollars)

	Minimum	Actual	Maximum
As at March 31, 2021	**68**	**761**	**1,028**
As at March 31, 2020	32	1,771	2,957

Maturity and concentration limits	Limits	**March 31, 2021**	March 31, 2020
Cash and cash equivalents maturing within 100 days	Min 75%	**100%**	100%
Cash and cash equivalents in Canadian provinces	Max 50%	**0%**	0%

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

(in thousands of Canadian dollars)

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

Additional information on financial instruments

	FVTPL and designated at FVTPL	FVOCI	Amortized Cost	**2021** Total
Interest income[1][2]	**99,923**	**17,632**	**1,495,460**	**1,613,015**
Interest expense[3]	**359**	**–**	**93,260**	**93,619**
Fee and other income	**33,168**	**–**	**34,257**	**67,425**

(1) Interest income includes $67,527 for impaired loans in 2021.
(2) The interest income on the financial assets measured at FVOCI and amortized cost are calculated using the effective rate method.
(3) The interest expense on financial liabilities measured at amortized cost is calculated using the effective rate method.

	FVTPL and designated at FVTPL	FVOCI	Amortized Cost	2020 Total
Interest income[1][2]	109,568	19,591	1,634,674	1,763,833
Interest expense[3]	2,145	–	364,376	366,521
Fee and other income	49,733	(7)	22,383	72,109

(1) Interest income includes $63,861 for impaired loans in 2020.
(2) The interest income on the financial assets measured at FVOCI and amortized cost are calculated using the effective rate method.
(3) The interest expense on financial liabilities measured at amortized cost is calculated using the effective rate method.

	FVTPL	Designated as at FVTPL	FVOCI	Amortized Cost	**2021** Total
Total gains (losses)					
Net realized gains (losses) on investments	**167,076**	**–**	**–**	**–**	**167,076**
Net change in unrealized appreciation (depreciation) of investments	**1,136,019**	**–**	**–**	**–**	**1,136,019**
Net realized foreign exchange gains (losses) on assets	**(168)**	**–**	**(14)**	**(997)**	**(1,179)**
Net unrealized foreign exchange gains (losses) on assets	**(76,919)**	**–**	**(548)**	**(67,569)**	**(145,036)**
Net realized foreign exchange gains (losses) on foreign exchange forward contracts	**53,314**	**–**	**–**	**–**	**53,314**
Net unrealized foreign exchange gains (losses) on foreign exchange forward contracts	**12,184**	**–**	**–**	**–**	**12,184**
Net foreign exchange gains (losses)	**(11,589)**	**–**	**(562)**	**(68,566)**	**(80,717)**
Net realized gains (losses) on other financial instruments	**1,271**	**–**	**–**	**–**	**1,271**
Net unrealized gains (losses) on other financial instruments	**(4,952)**	**4,656**	**–**	**59**	**(237)**
Net gains (losses) on other financial instruments	**(3,681)**	**4,656**	**–**	**59**	**1,034**
	1,287,825	**4,656**	**(562)**	**(68,507)**	**1,223,412**

(in thousands of Canadian dollars)

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

Additional information on financial instruments (continued)

					2020
	FVTPL	Designated as at FVTPL	FVOCI	Amortized Cost	Total
Total gains (losses)					
Net realized gains (losses) on investments	248,073	–	–	–	248,073
Net change in unrealized appreciation (depreciation) of investments	(541,225)	–	–	–	(541,225)
Net realized foreign exchange gains (losses) on assets	98	–	27	7,158	7,283
Net unrealized foreign exchange gains (losses) on assets	39,293	–	242	24,430	63,965
Net realized foreign exchange gains (losses) on foreign exchange forward contracts	(28,127)	–	–	–	(28,127)
Net unrealized foreign exchange gains (losses) on foreign exchange forward contracts	(7,019)	–	–	–	(7,019)
Net foreign exchange gains (losses)	4,245	–	269	31,588	36,102
Net realized gains (losses) on other financial instruments	1,125	–	–	–	1,125
Net unrealized gains (losses) on other financial instruments	(1,421)	572	–	(60)	(909)
Net gains (losses) on other financial instruments	(296)	572	–	(60)	216
	(289,203)	572	269	31,528	(256,834)

Other additional information

	2021	2020(1)
Salaries and benefits		
Salaries and other benefits	**389,878**	377,360
Defined benefit plan expense (Note 19)	**64,563**	75,594
	454,441	452,954
Other expenses		
Professional and outsourcing fees	**96,497**	94,934
Computers and software, including amortization and depreciation	**49,112**	45,442
Communications, advertising and promotion	**21,962**	24,467
Other	**8,866**	25,335
	176,437	190,178

(1) In fiscal 2021, modifications were made to the classification of operating and administrative expenses, resulting in the reclassification of comparative results for fiscal 2020. Refer to Note 28—*Comparative information* for more details.

25.
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**: provides advisory services, supports high-impact firms, and provides group programs and other services related to business activities.

> **Growth & Transition Capital**: provides subordinate financing by way of flexible debt, with or without convertible features, and quasi-equity 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, Growth Equity Fund II, which will maintain a focus on mid-size businesses and target a broader range of companies. Through its IP Fund, BDC launched a $160 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) and Cleantech Practice). 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 this newly created segment 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.

(in thousands of Canadian dollars)

25. Segmented information (continued)

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

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

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, which are all held in Canada, are managed separately based on BDC's business segments. None of the other assets or liabilities are managed by segment.

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

							March 31, 2021
	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Capital Incentive Programs	Credit Availability Program
Interest income	**1,613,015**	**1,445,665**	**–**	**87,837**	**37**	**8,941**	**70,535**
Interest expense	**93,619**	**85,579**	**–**	**5,637**	**523**	**–**	**1,880**
Net interest income (loss)	**1,519,396**	**1,360,086**	**–**	**82,200**	**(486)**	**8,941**	**68,655**
Net realized gains (losses) on investments	**167,076**	**(250)**	**–**	**(8,644)**	**168,211**	**6,799**	**960**
Revenue from Advisory Services	**20,922**	**–**	**20,922**	**–**	**–**	**–**	**–**
Fee and other income	**67,425**	**24,069**	**7**	**19,194**	**10,084**	**2,906**	**11,165**
Net revenue	**1,774,819**	**1,383,905**	**20,929**	**92,750**	**177,809**	**18,646**	**80,780**
Provision for expected credit losses	**(507,256)**	**(262,021)**	**–**	**–**	**–**	**–**	**(245,235)**
Net change in unrealized appreciation (depreciation) of investments	**1,136,019**	**(4,522)**	**–**	**61,162**	**836,236**	**243,307**	**(164)**
Net foreign exchange gains (losses)	**(80,717)**	**(3,957)**	**–**	**(2,685)**	**(69,863)**	**(2,124)**	**(2,088)**
Net gains (losses) on other financial instruments	**1,034**	**1,034**	**–**	**–**	**–**	**–**	**–**
Income (loss) before operating and administrative expenses	**2,323,899**	**1,114,439**	**20,929**	**151,227**	**944,182**	**259,829**	**(166,707)**
Salaries and benefits	**454,441**	**228,814**	**43,154**	**30,180**	**29,473**	**3,890**	**118,930**
Premises and equipment	**43,158**	**24,433**	**3,323**	**1,785**	**1,947**	**390**	**11,280**
Other expenses	**176,437**	**128,089**	**13,876**	**4,429**	**10,295**	**1,166**	**18,582**
Operating and administrative expenses	**674,036**	**381,336**	**60,353**	**36,394**	**41,715**	**5,446**	**148,792**
Net income (loss)	**1,649,863**	**733,103**	**(39,424)**	**114,833**	**902,467**	**254,383**	**(315,499)**
Net income (loss) attributable to:							
BDC's shareholder	**1,647,648**	**733,103**	**(39,424)**	**113,355**	**901,730**	**254,383**	**(315,499)**
Non-controlling interests	**2,215**	**–**	**–**	**1,478**	**737**	**–**	**–**
Net income (loss)	**1,649,863**	**733,103**	**(39,424)**	**114,833**	**902,467**	**254,383**	**(315,499)**
Business segment portfolio as at March 31, 2021							
Loans, net of allowance for expected credit losses	**30,905,481**	**27,876,931**	**–**	**–**	**–**	**–**	**3,028,550**
Asset-backed securities	**733,322**	**733,322**	**–**	**–**	**–**	**–**	**–**
Subordinate financing investments	**1,452,966**	**17,297**	**–**	**913,938**	**215,105**	**288,534**	**18,092**
Venture capital investments	**2,978,568**	**–**	**–**	**–**	**2,152,971**	**674,655**	**150,942**
Total portfolio	**36,070,337**	**28,627,550**	**–**	**913,938**	**2,368,076**	**963,189**	**3,197,584**

(in thousands of Canadian dollars)

25. Segmented information (continued)

							March 31, 2020[1]
	BDC	Financing	Advisory Services	Growth & Transition Capital	Venture Capital	Capital Incentive Programs	Credit Availability Program
Interest income	1,763,833	1,656,496	–	101,989	–	5,348	–
Interest expense	366,521	355,851	–	10,439	231	–	–
Net interest income (loss)	1,397,312	1,300,645	–	91,550	(231)	5,348	–
Net realized gains (losses) on investments	248,073	–	–	(6,073)	253,615	531	–
Revenue from Advisory Services	29,236	–	29,236	–	–	–	–
Fee and other income	72,109	22,677	–	30,433	12,996	6,003	–
Net revenue	1,746,730	1,323,322	29,236	115,910	266,380	11,882	–
Provision for expected credit losses	(772,511)	(772,511)	–	–	–	–	–
Net change in unrealized appreciation (depreciation) of investments	(541,225)	1,725	–	(106,015)	(346,371)	(90,564)	–
Net foreign exchange gains (losses)	36,102	(2,546)	–	404	37,004	1,240	–
Net gains (losses) on other financial instruments	216	216	–	–	–	–	–
Income (loss) before operating and administrative expenses	469,312	550,206	29,236	10,299	(42,987)	(77,442)	–
Salaries and benefits	452,954	329,178	52,603	35,762	31,375	4,036	–
Premises and equipment	44,179	35,251	4,276	2,215	2,002	435	–
Other expenses	190,178	153,724	19,164	5,267	10,492	1,531	–
Operating and administrative expenses	687,311	518,153	76,043	43,244	43,869	6,002	–
Net income (loss)	(217,999)	32,053	(46,807)	(32,945)	(86,856)	(83,444)	–
Net income (loss) attributable to:							
BDC's shareholder	(193,018)	32,053	(46,807)	(32,115)	(62,705)	(83,444)	–
Non-controlling interests	(24,981)	–	–	(830)	(24,151)	–	–
Net income (loss)	(217,999)	32,053	(46,807)	(32,945)	(86,856)	(83,444)	–
Business segment portfolio as at March 31, 2020							
Loans, net of allowance for expected credit losses	27,273,088	27,273,088	–	–	–	–	–
Asset-backed securities	777,838	777,838	–	–	–	–	–
Subordinate financing investments	1,240,588	12,540	–	982,003	132,171	113,874	–
Venture capital investments	1,721,136	–	–	–	1,295,902	425,234	–
Total portfolio	31,012,650	28,063,466	–	982,003	1,428,073	539,108	–

(1) In fiscal 2021, modifications were made to the reportable segments structure and to the classification of operating and administrative expenses, resulting in the reclassification of comparative segmented results and business segment portfolios for fiscal 2020. Refer to Note 28—*Comparative information* for more details.

(in thousands of Canadian dollars)

26.

Guarantees and contingent liabilities

Financial guarantees

Guarantees

BDC issues "letters of credit, loan guarantees and portfolio guarantees" (guarantees) to support businesses. Those guarantees represent BDC's obligation to make payments to third parties if clients are unable to meet their contractual commitments. Collateral requirements for guarantees are consistent with BDC collateral requirements for loans. The fee income is calculated as a percentage of the outstanding principal amounts and is recognized as it comes payable in fee and other income in the Consolidated Statement of Income (Loss). The maximum contractual obligation and actual exposure under the guarantees totalled $294.6 million as at March 31, 2021 ($11.1 million as at March 31, 2020) and the existing terms expire within 120 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 fee was received. In addition, no receivable for the future expected fees was recognized. Subsequent recognition of a liability will only occur when it becomes more likely than not that a client will not meet its contractual commitments. As at March 31, 2021 and March 31, 2020 there were no liabilities recognized in BDC's Consolidated Statement of Financial Position related to these guarantees.

Concentrations of the total loan guarantees by province and territory and by industry sector are set out in the tables below.

	March 31, 2021	March 31, 2020
Geographic distribution	**Loan guarantees**	Loan guarantees
Newfoundland and Labrador	**2,575**	–
Prince Edward Island	**600**	–
Nova Scotia	**5,320**	412
New Brunswick	**3,660**	–
Quebec	**41,446**	7,968
Ontario	**147,328**	1,141
Manitoba	**4,525**	–
Saskatchewan	**1,900**	–
Alberta	**57,783**	1,163
British Columbia	**29,507**	443
Yukon	**–**	–
Northwest Territories and Nunavut	**–**	–
Total loan guarantees[1]	**294,644**	11,127

(1) Loans guarantees included $8.0 million in the Financing segment, and $286.6 million in the Credit Availability Program segment as at March 31, 2021 ($11.1 million, and nil respectively, as at March 31, 2020).

(in thousands of Canadian dollars)

26. Guarantees and contingent liabilities (continued)

Financial guarantees (continued)

Industry sector	March 31, 2021 Loan guarantees	March 31, 2020 Loan guarantees
Tourism	**115,943**	–
Service industries	**56,396**	480
Wholesale and retail trade	**22,775**	419
Manufacturing	**18,338**	3,423
Construction	**18,258**	1,131
Resources	**10,943**	2,313
Transportation and storage	**9,731**	961
Commercial properties	**2,949**	–
Other	**39,311**	2,400
Total loan guarantees(1)	**294,644**	11,127

(1) Loans guarantees included $8.0 million in the Financing segment, and $286.6 million in the Credit Availability Program segment as at March 31, 2021 ($11.1 million, and nil respectively, as at March 31, 2020).

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 (nil as at March 31, 2020).

				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 loan 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.

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

						March 31, 2021
BDC rating	Grade equivalent	Stage 1	Stage 2	Stage 3	Total	%
0.5-1.0	Investment grade	**25,270**	**100**	**–**	**25,370**	**9%**
1.5-5.0	Non-investment grade	**203,358**	**54,388**	**–**	**257,746**	**87%**
5.5	Watchlist	**–**	**11,278**	**–**	**11,278**	**4%**
6.0 and up	Credit-impaired	**–**	**–**	**250**	**250**	**0%**
Net carrying amount		**228,628**	**65,766**	**250**	**294,644**	**100%**

						March 31, 2020
BDC rating	Grade equivalent	Stage 1	Stage 2	Stage 3	Total	%
0.5-1.0	Investment grade	–	–	–	–	0%
1.5-5.0	Non-investment grade	11,127	–	–	11,127	100%
5.5	Watchlist	–	–	–	–	0%
6.0 and up	Credit-impaired	–	–	–	–	0%
Net carrying amount		11,127	–	–	11,127	100%

26. Guarantees and contingent liabilities (continued)

Financial guarantees (continued)

Indemnification agreements
In the ordinary course of business, BDC enters into many contracts that contain indemnification provisions, such as purchase contracts, employment contracts, service agreements and leasing arrangements. In such contracts, BDC may indemnify counterparties to the contracts for certain aspects of BDC's past conduct if other parties fail to perform, or if certain events occur, such as changes in laws and regulations (including tax legislation), changes in the financial condition of third parties, infringements and breaches of representations and warranties, undisclosed liabilities, and loss caused by the actions of third parties, or as a result of litigation claims by third parties.

These indemnification obligations vary based upon each contract. In many cases, there are no predetermined amounts or limits included in these contracts, and the occurrence of contingent events that triggers payment under them is difficult to predict. The nature of these indemnification contracts is such that BDC cannot reasonably estimate the maximum potential future amount that may be payable to counterparties. Historically, BDC has not made any significant payments under these indemnities and there were no significant provisions for indemnities as at March 31, 2021, and March 31, 2020.

Contingent liabilities

Various legal proceedings arising from the normal course of business are pending against BDC. Management believes that should BDC be found liable pursuant to one or more of these proceedings, the aggregate liability resulting from such proceedings would not be material.

27.

Related party transactions

BDC is a Crown corporation that is wholly owned by the Government of Canada and is accountable for its affairs through the Minister of Small Business, Export Promotion and International Trade. BDC is also related to all Government of Canada- created departments, agencies and Crown corporations. BDC enters into transactions with these entities in the normal course of business, under terms and conditions similar to those that apply to unrelated parties.

The defined benefit plans referred to in Note 19—*Net defined benefit asset or liability*, are also related parties. BDC's transactions with these funds include contributions paid to the plans, which are disclosed in Note 19—*Net defined benefit asset or liability*. BDC has no other transactions or balances related to these defined benefit plans.

Borrowings with the Minister of Finance

During the reporting periods, BDC has borrowed funds from Her Majesty the Queen in Right of Canada acting through the Minister of Finance. This borrowing is in accordance with the FAA and the BDC Act and is compliant with (i) BDC's borrowing plan, which is approved by the Minister of Finance, and (ii) the Crown Borrowing Program Framework.

(in thousands of Canadian dollars)

27. Related party transactions (continued)

Borrowings with the Minister of Finance (continued)

The following table shows the transactions and outstanding balances related to the borrowings with the Minister of Finance. Refer to Note 18—*Borrowings*, for additional information on short-term and long-term notes.

	Short-term notes		Long-term notes		Total	
	2021	2020	**2021**	2020	**2021**	2020
Balance at beginning of year	**19,356,337**	20,950,785	**4,071,332**	1,306,622	**23,427,669**	22,257,407
Net change in short-term notes	**(6,014,000)**	(1,585,000)	**–**	–	**(6,014,000)**	(1,585,000)
Net changes in accrued interest	**(5,963)**	(9,448)	**2,241**	9,710	**(3,722)**	262
Issuance of long-term notes	**–**	–	**835,000**	2,755,000	**835,000**	2,755,000
Repayment of long-term notes	**–**	–	**–**	–	**–**	–
Balance at end of year	**13,336,374**	19,356,337	**4,908,573**	4,071,332	**18,244,947**	23,427,669

During the year, BDC recorded $92.4 million in interest expense related to these borrowings ($371.5 million in 2020). In addition, $5.305 billion in borrowings with the Minister of Finance were repurchased in 2021. These transactions did not result in any gains or losses for fiscal 2021 ($325.0 million in borrowings were repurchased for fiscal 2020 and did not result in any gains or losses).

Key management personnel

Key management personnel are defined as those officers having authority and responsibility for planning, directing and controlling the activities of BDC, including members of the Board of Directors. The following table shows the compensation expense of key management personnel.

	2021	2020
Salaries and short-term employee benefits	**5,705**	6,455
Post-employment benefits	**1,277**	1,474
Other long-term benefits	**1,050**	1,269
Total	**8,032**	9,198

A Member of the Board or a BDC officer either owns an interest in, or is an officer or director of a BDC's client. Said Board Member or BDC officer disclosed his or her interest to the Board, was not present when the loan or investment was discussed, and, if applicable, did not vote on the resolution of the Board to approve the related transaction.

	March 31, 2021
Name of client	Amount of the loan or investment
Cobalt Intelligence Inc.	**332**
Total	**332**

Subsidiaries and associates

The relationship between BDC and its subsidiaries meets the definition of a related party. All transactions between the Bank and its subsidiaries have been eliminated on consolidation, and as such, are not disclosed as related party transactions.

In the normal course of business, BDC provides certain services to associates, including equity-type financing and investments. These transactions meet the definition of related party transactions and are made on terms equivalent to those that prevail in arm's-length transactions. Refer to Note 2—*Basis of preparation*, for more information on associates.

(in thousands of Canadian dollars)

28.

Comparative information

Effective September 21, 2020, BDC announced an organizational change in its leadership and internal reporting structure, which resulted in the following:

> The portfolios and related results of Growth Equity and Intellectual Property, which were previously reported under the Growth and Transition Capital segment, were transferred to the Venture Capital segment; and

> The portfolios and related results of the Cleantech Practice segment were transferred to the Capital Incentive Programs segment, and the Cleantech Practice segment was eliminated; and

> The Venture Capital Incentive Programs segment was renamed 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 25—*Segmented Information*. There was no impact on Consolidated Net Income (Loss), or on the Consolidated Balance Sheet.

During fiscal 2021, BDC also reclassed certain expenses presented within the categories of operating and administrative expenses. There was no impact on the total operating and administrative expenses, either at a consolidated level or at the segment level.

BDC prepared its Consolidated Financial Statements for the year-ended March 31, 2021, including the comparative information as at March 31, 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 March 31, 2020.

	Fiscal Year ended March 31, 2020	Segments reclassification impact	Operating and administrative expenses reclassification impact	Fiscal Year ended March 31, 2020 reclassified
BDC Consolidated				
Interest income	1,763,833	–	–	1,763,833
Interest expense	366,521	–	–	366,521
Net interest income	1,397,312	–	–	1,397,312
Net realized gains (losses) on investments	248,073	–	–	248,073
Revenue from Advisory Services	29,236	–	–	29,236
Fee and other income	72,109	–	–	72,109
Net revenue	1,746,730	–	–	1,746,730
Provision for expected expected credit losses	(772,511)	–	–	(772,511)
Net change in unrealized appreciation (depreciation) of investments	(541,225)	–	–	(541,225)
Net foreign exchange gains (losses)	36,102	–	–	36,102
Net gains (losses) on other financial instruments	216	–	–	216
Income before operating and administrative expenses	469,312	–	–	469,312
Salaries and benefits	452,431	–	523	452,954
Premises and equipment	45,608	–	(1,429)	44,179
Other expenses	189,272	–	906	190,178
Operating and administrative expenses	687,311	–	–	687,311
Net income (loss)	(217,999)	–	–	(217,999)
Business segment portfolio	31,012,650	–	–	31,012,650

(in thousands of Canadian dollars)

28. Comparative information (continued)

Business Lines	Fiscal Year ended March 31, 2020	Segments reclassification impact	Operating and administrative expenses reclassification impact	Fiscal Year ended March 31, 2020 reclassified
Financing				
Interest income	1,656,496	–	–	1,656,496
Interest expense	355,851	–	–	355,851
Net interest income	1,300,645	–	–	1,300,645
Fee and other income	22,677	–	–	22,677
Net revenue	1,323,322	–	–	1,323,322
Provision for expected expected credit losses	(772,511)	–	–	(772,511)
Net change in unrealized appreciation (depreciation) of investments	1,725	–	–	1,725
Net foreign exchange gains (losses)	(2,546)	–	–	(2,546)
Net gains (losses) on other financial instruments	216	–	–	216
Income before operating and administrative expenses	550,206	–	–	550,206
Salaries and benefits	328,743	–	435	329,178
Premises and equipment	36,675	–	(1,424)	35,251
Other expenses	152,735	–	989	153,724
Operating and administrative expenses	518,153	–	–	518,153
Net income	32,053	–	–	32,053
Business segment portfolio	28,063,466	–	–	28,063,466
Advisory Services				
Revenue from Advisory Services	29,236	–	–	29,236
Net revenue	29,236	–	–	29,236
Income before operating and administrative expenses	29,236	–	–	29,236
Salaries and benefits	52,580	–	23	52,603
Premises and equipment	4,279	–	(3)	4,276
Other expenses	19,184	–	(20)	19,164
Operating and administrative expenses	76,043	–	–	76,043
Net income (loss)	(46,807)	–	–	(46,807)
Business segment portfolio	–	–	–	–

(in thousands of Canadian dollars)

28. Comparative information (continued)

Business Lines	Fiscal Year ended March 31, 2020	Segments reclassification impact	Operating and administrative expenses reclassification impact	Fiscal Year ended March 31, 2020 reclassified
Growth and Transition Capital				
Interest income	101,989	–	–	101,989
Interest expense	10,670	(231)	–	10,439
Net interest income	91,319	231	–	91,550
Net realized gains (losses) on investments	(5,064)	(1,009)	–	(6,073)
Fee and other income	32,526	(2,093)	–	30,433
Net revenue (loss)	118,781	(2,871)	–	115,910
Net change in unrealized appreciation (depreciation) of investments	(90,710)	(15,305)	–	(106,015)
Net foreign exchange gains (losses)	404	–	–	404
Income (loss) before operating and administrative expenses	28,475	(18,176)	–	10,299
Salaries and benefits	38,400	(2,688)	50	35,762
Premises and equipment	2,388	(171)	(2)	2,215
Other expenses	5,523	(208)	(48)	5,267
Operating and administrative expenses	46,311	(3,067)	–	43,244
Net income (loss)	(17,836)	(15,109)	–	(32,945)
Business segment portfolio	1,114,174	(132,171)	–	982,003
Venture Capital				
Interest expense	–	231	–	231
Net interest income (loss)	–	(231)	–	(231)
Net realized gains (losses) on investments	252,606	1,009	–	253,615
Fee and other income	10,903	2,093	–	12,996
Net revenue	263,509	2,871	–	266,380
Net change in unrealized appreciation (depreciation) of investments	(361,676)	15,305	–	(346,371)
Net foreign exchange gains (losses)	37,004	–	–	37,004
Income (loss) before operating and administrative expenses	(61,163)	18,176	–	(42,987)
Salaries and benefits	28,676	2,688	11	31,375
Premises and equipment	1,831	171	–	2,002
Other expenses	10,295	208	(11)	10,492
Operating and administrative expenses	40,802	3,067	–	43,869
Net income (loss)	(101,965)	15,109	–	(86,856)
Business segment portfolio	1,295,902	132,171	–	1,428,073

(in thousands of Canadian dollars)

28. Comparative information (continued)

Business Lines	Fiscal Year ended March 31, 2020	Segments reclassification impact	Operating and administrative expenses reclassification impact	Fiscal Year ended March 31, 2020 reclassified
Capital Incentive Programs (formely Venture Capital Incentive Programs)				
Interest income	–	5,348	–	5,348
Net interest income	–	5,348	–	5,348
Net realized gains (losses) on investments	531	–	–	531
Fee and other income	2,109	3,894	–	6,003
Net revenue	2,640	9,242	–	11,882
Net change in unrealized appreciation (depreciation) of investments	(73,328)	(17,236)	–	(90,564)
Net foreign exchange gains (losses)	862	378	–	1,240
Income (loss) before operating and administrative expenses	(69,826)	(7,616)	–	(77,442)
Salaries and benefits	1,085	2,947	4	4,036
Premises and equipment	218	217	–	435
Other expenses	961	574	(4)	1,531
Operating and administrative expenses	2,264	3,738	–	6,002
Net income (loss)	(72,090)	(11,354)	–	(83,444)
Business segment portfolio	419,273	119,835	–	539,108
Cleantech Practice				
Interest income (loss)	5,348	(5,348)	–	–
Net interest income (loss)	5,348	(5,348)	–	–
Fee and other income	3,894	(3,894)	–	–
Net revenue (loss)	9,242	(9,242)	–	–
Net change in unrealized appreciation (depreciation) of investments	(17,236)	17,236	–	–
Net foreign exchange gains (losses)	378	(378)	–	–
Income (loss) before operating and administrative expenses	(7,616)	7,616	–	–
Salaries and benefits	2,947	(2,947)	–	–
Premises and equipment	217	(217)	–	–
Other expenses	574	(574)	–	–
Operating and administrative expenses	3,738	(3,738)	–	–
Net income (loss)	(11,354)	11,354	–	–
Business segment portfolio	119,835	(119,835)	–	–

Corporate Governance

At BDC, we have established a robust and effective corporate governance structure to maintain the confidence and trust of our most important stakeholders: entrepreneurs, employees, the public and our shareholder.

We achieve high standards of governance through a clear understanding of our mandate, well-defined roles, strong leadership and alignment of our corporate governance framework from the board level to the operational level.

BDC's corporate governance framework

Federal statutes and Treasury Board guidelines

The *Business Development Bank of Canada Act* sets out BDC's purpose, powers and mandate. The *Financial Administration Act* sets out the control regime for Crown corporations, including strategic planning and financial accountability. BDC's by-laws prescribe the rules that govern the functioning of the Bank.

We look to the Treasury Board of Canada Secretariat for guidance on public sector governance practices. BDC meets all of the governance standards recommended by Treasury Board. We also regularly benchmark ourselves against corporate governance and risk management best practices in the financial services sector, and update our corporate governance framework as appropriate.

Board governance

Our board sets BDC's strategic direction and holds senior management accountable for achieving BDC's statutory mandate while respecting its complementary role. Our board's mandate, the Board Code of Conduct and board committees' charters define the board's corporate governance framework, oversight responsibilities, stewardship role and decision-making authority.

The board is composed of dedicated, hard-working directors. Their expertise, integrity and commitment to ethical business conduct allows them to transform principles into action and build trust amongst our stakeholders. Together, our directors have the required mix of skills and experience needed to guide management in delivering on BDC's mandate. They bring a diverse range of perspectives that helps us support our clients' goals and aspirations.

The board committees do indepth work in their areas of responsibility and provide regular reports to the board on the activities and performance of the Bank. The board and its committees regularly assess their effectiveness; directors perform peer-to-peer evaluations; and management assesses the board. Except for the President and CEO, all board members are independent. The segregated roles and responsibilities of the Chairperson of the Board and the President and CEO reflect best practices. There is extensive communication and collaboration between board members and senior management in an environment of respect.

The board and its committees hold in camera sessions, as needed, with the heads of the oversight functions and with auditors. They also regularly meet in the absence of management.

Compliance

Under the leadership of the Chief Compliance Officer, the compliance team reviews the design and effectiveness of internal controls and obtains certification of compliance with these controls from senior managers. In addition, the compliance team defines measures for the identification, management and protection of critical information.

Risk management

BDC's core challenge is to carry out its role as a development bank that supports entrepreneurs while prudently managing risk and remaining financially sustainable. The board works closely with management to instill and monitor an appropriate risk culture. BDC continues to refine its risk management framework under the leadership of the Chief Risk Officer who is responsible for the effectiveness of risk management and risk oversight functions.

Transparency and conduct review

BDC's directors, executives and employees are committed to the highest standards of business ethics and corporate governance. The board provides oversight of conduct review. Our operations and activities are characterized by an open and ethical culture. The Board Code of Conduct and the Employee Code of Conduct, Ethics and Values are regularly updated to ensure they provide ethical guidance at all levels of our organization. Directors, employees and consultants declare annually that they have read, understood and complied with our codes of conduct. The codes are reinforced by governance documents on personal trading, disclosure of wrongdoing, anti-fraud, anti-money laundering, anti-terrorism financing and respect for sanctions.

Robust processes are in place to manage conflicts of interest. Any loan or investment made to a company with respect to which a director or officer has declared an interest is approved by a committee of the board.

Such transactions are disclosed in BDC's Annual Report in compliance with the BDC Act.

Government oversight

Each year, Parliament receives an update on BDC's five-year Corporate Plan, which has been approved by the board, the Treasury Board of Canada Secretariat, and the Minister of Small Business, Export Promotion and International Trade. Parliament also receives BDC's Annual Report. It contains our Consolidated Financial Statements, which have been audited by both the Auditor General of Canada and an external audit firm.

At 10-year intervals, the Minister of Small Business, Export Promotion and International Trade reviews the provisions and operation of the BDC Act, in consultation with the Minister of Finance. The latest review was scheduled for 2020. However, the government's response to the COVID pandemic took priority. We expect the review to resume in 2021.

Highlights of the year

A large part of the Board of Directors' activities in fiscal 2021 was devoted to dealing with the consequences of the COVID-19 pandemic. BDC was called upon by our shareholder, the Government of Canada, to increase our support to entrepreneurs to help them get their businesses through the pandemic. We began delivering additional support in the fourth quarter of fiscal 2020. As the extent of the economic impact of the pandemic became clearer, the government acted quickly to amend the BDC Act to increase paid-in capital to $20 billion and allocate $18.5 billion to deploy programs to support Canadian entrepreneurs.

The Board Risk Committee, the Board Investment Committee and the entire board met in emergency sessions to approve the Co-Lending Program and the Mid-Market Financing Program, which together make up the Business Credit Availability Program (BCAP), as well as the Highly Affected Sectors Credit Availability Program (HASCAP). Additional meetings were required to approve changes to BDC's existing working capital and online financing loans, and Venture Capital's Bridge Financing Program, which together with BCAP and HASCAP make up the Credit Availability Program.

The board provided invaluable oversight with respect to capital allocation, stress testing and management decisions on loan-loss provisions. Additionally, management briefed the board on agreements between BDC and private sector financial institutions for the deployment of BCAP and HASCAP. The board provided timely assistance in liaising with the financial institutions to expedite deployment of these programs. At the same time, the Human Resources Committee and Audit and Conduct Committee supported the implementation of BDC's Business Continuity Plan, in particular by overseeing responses to challenges stemming from having all employees working from home, including ensuring adequate IT services to support a remote workforce.

Board members rose to all of these challenges, attending a record 82 meetings of committees and the full board, all held virtually from March 15, 2020, the date on which BDC's offices were closed and board travel ceased.

Despite the heavy workload caused by the pandemic, the board stayed focused on other important priorities that became even more imperative as a result of the crisis. For example, the compliance team began the development of a privacy policy in anticipation of expected changes to the *Privacy Act*. It also developed information management directives to support enhanced information security.

Governance highlights

The board bid farewell to Robert H. Pitfield whose eight years of dedicated service included chairing the Board Risk Committee. Rob provided a wealth of expertise and invaluable guidance over the years, notably as the board responded to recommendations from a review by the Office of the Superintendent of Financial Institutions; oversaw an enhancement of the risk management function; and supervised the development of a new capital management framework. Rob's input was also critical in BDC's ability to rapidly and successfully respond to the COVID crisis.

The board welcomed Bill Currie, the former Vice Chair of Deloitte Canada, who brings risk management expertise as well as international consulting experience to the board's deliberations. He serves as the Chairperson of the Board Risk Committee.

The board spent considerable time reviewing BDC's environmental, social and governance (ESG) strategy, including a growing awareness of the responsibilities that all financial institutions have with respect to climate resilience risk and disclosure, compliance with the *Impact Assessment Act* and the management of other environmental risks.

The board assessed its governance on these important matters and reconfirmed the role of the Governance Nominating Committee in overseeing ESG as a strategic challenge and opportunity as opposed to merely a compliance or risk matter. The Board approved management's proposal to make BDC's operations carbon neutral by 2025.

Board of Directors

Chairperson
Mike Pedersen

Number of meetings
16

The board is responsible for the following:

> approving BDC's strategic direction and corporate plan to meet its public policy mandate

> overseeing BDC's talent, culture and conduct review

> setting performance targets and monitoring progress

> approving the risk appetite framework, which includes the risk appetite statement, to ensure BDC is identifying and managing its risks properly

> ensuring the highest standards of corporate governance and board effectiveness are respected

> establishing compensation policies and ensuring they are aligned with BDC's risk appetite

> reviewing and approving management's succession plan, which includes approving appointments to the senior management team

> setting the President and CEO's performance objectives and evaluating his performance

> reviewing BDC's financial matters and internal controls

> overseeing communications and public disclosures

> overseeing BDC's pension plans, including establishing their funding policies and practices

> approving financing and investment activities beyond management's authority, and overseeing financial and advisory services

> ensuring the complementarity of BDC's market approach and activities

1 Committees

Audit and Conduct Committee

Chairperson
Brian O'Neil

Number of meetings
5

Members
Michael Calyniuk
Vijay Kanwar
Abdullah Snobar
Suzanne Trottier

This committee promotes an overall corporate culture of quality financial reporting and ethical behaviour. Its main duties are as follows:

> review and advise the board on annual and quarterly Consolidated Financial Statements before disclosure in accordance with accounting principles

> review the integrity, adequacy and effectiveness of the internal control framework, information management systems, and, in particular, controls related to major IT, accounting and financial reporting systems

> provide primary oversight of conduct review, including BDC's standards of integrity and conduct, the anti-fraud program for internal fraud, the process for disclosing wrongdoing and reports from the Ombudsperson

> oversee information management systems, their performance and information security

> recommend the appointment and removal of, and succession planning for, the Chief Audit Executive

> oversee the activities and assess the performance of the Chief Audit Executive and the internal audit function

> make recommendations on the appointments of auditors and special examiners, oversee their activities and assess the performance of external auditors

> review the scope and terms of engagement of auditors and special examiners who report directly to the committee and are accountable to the board

> oversee the activities of the corporate compliance function, including regulatory compliance, and assess its performance, as well as confidentiality and privacy issues

> oversee capital management, allocation, adequacy and the declaration of a dividend

> review directors' and officers' expenses

Board Risk Committee

Chairperson
Bill Currie

Number of meetings
29

Members
Tracey Scarlett
Abdullah Snobar
Suzanne Trottier
Mary Alice Vuicic

This committee's main duties are as follows:

> review and recommend to the board the risk management framework

> oversee the work of the Chief Risk Officer and the risk oversight functions

> identify and manage BDC's principal financial, business and operational risks, and oversee the Bank's risk culture

> oversee activities aimed at preventing external fraud and other financial crimes

> oversee management of privacy issues and controls

> regularly review the Enterprise Risk Management Policy and other policies concerning key risks, such as credit, market, strategic, reputational, operational, information technology and other principal risks

> review and recommend to the board all strategies related to BDC's material financial offerings

> approve and assess the effectiveness of BDC's risk appetite statement and monitor compliance with the models and limits contained in it

> review reports and indicators related to BDC's risk profile regarding enterprise risk management, portfolio risk management, capital management and adequacy, treasury operations risks and information technology security, including emerging risks and exceptions to the risk appetite statement and policies

> approve the framework for assessing and approving new business activities, products and services, except those related to Venture Capital

> ensure the effectiveness of stress testing procedures, and review reports on BDC's risk profile, stress testing processes, and the stress testing methodology, including review of the internal capital adequacy assessment process

> periodically review the business continuity plan

> approve loans and transactions that exceed the delegated authorities of senior management

> review policies and guidelines related to the delegation of authority for all financial products, except Venture Capital products

Governance/Nominating Committee

Chairperson	Members
Mike Pedersen	Sandra Bosela
	Bill Currie
Number of meetings	Brian O'Neil
6	Mary Alice Vuicic

This committee helps the board fulfill its corporate governance oversight responsibilities. Its main duties are as follows:

> continually review best practices and regulations related to governance in Canada and, if necessary, recommend changes to BDC's approach

> annually review BDC's corporate governance policies, including the Board Code of Conduct, and the Employee Code of Conduct, Ethics and Values

> annually assess the board's compliance with these policies

> oversee management of environmental, social and governance issues as a strategic challenge and opportunity

> monitor procedures established to detect and manage potential conflicts of interest

> regularly review the mandates, structures and memberships of the board and its committees

> develop selection criteria for the President and CEO position

> recommend to the board, for the consideration of the Minister of Small Business, Export Promotion and International Trade, the reappointment of the Chairperson of the Board, the President and CEO, and directors

> retain a search firm to identify candidates for the positions of the Chairperson of the Board, the President and CEO, and directors

> review and annually approve a list of skills required by directors

> develop processes to assess the performance of the board, its committees and directors

> ensure that comprehensive director orientation and continuous training programs are in place

Human Resources Committee

Chairperson	Members
Mary Alice Vuicic	Cathy Bennett
	Sandra Bosela
Number of meetings	Shahir Guindi
6	Tracey Scarlett

This committee's main duties are as follows:

> assess the "tone at the top" established by senior management regarding integrity and ethics, and review policies for managing personnel effectively

> recommend to the board the human resources strategy, including key human resources objectives, plans and workforce requirements

> review and, if appropriate, recommend to the board for approval any major organizational structure changes, including the President and CEO's and other committees' recommendations for appointments of senior management committee members, the Chief Audit Executive, the Chief Risk Officer and the Ombudsperson

> assess the President and CEO's objectives, performance, evaluation and benefits

> review compensation for senior executives

> review and approve the design of compensation policies, programs and plans

> approve performance measures and metrics

> ensure there is a valid succession plan in place for all critical positions, including the Chief Risk Officer and Chief Audit Executive

> assess human resources risks, such as those related to employee attraction, retention, engagement and performance

> receive and examine actuarial evaluation reports and financial statements related to BDC's pension plans, as well as recommend funding contributions

> recommend to the board funding and design changes to the pension plans

> monitor the funded status of the pension plans

> recommend the pension plan funds' financial statements to the board

> advise the board on investment strategies and the asset mix

Board Investment Committee

Chairperson	Members
Sandra Bosela	Cathy Bennett Michael Calyniuk Shahir Guindi Vijay Kanwar Brian O'Neil
Number of meetings	
20	

This committee's duties are as follows:

- regularly review the Venture Capital Policy, and other policies and processes for investment activities
- review and assess all risks associated with investments and the management thereof
- review all strategies, guardrails and capital allocations for all material investment activities, including venture capital and private equity
- approve the business plans of Venture Capital's internal funds, as well as their investment strategies, capital allocation and guardrails
- oversee the Cleantech Practice's transactions and portfolio
- review strategic initiatives aimed at improving the venture capital ecosystem
- review and recommend delegations of authority
- monitor portfolio performance
- approve investments that exceed the delegated authorities of senior management

To see board committees' mandates, please go to www.bdc.ca.

Fiscal 2021 Board of Directors and Committee Attendance

	Board of Directors			Audit and Conduct Committee			Board Investment Committee			Board Risk Committee			Governance/ Nominating Committee			Human Resources Committee			Committee meetings		
Directors	Attendance	Total	%	Attendance	Total	%	Attendance	Total	%	Attendance	Total	%	Attendance	Total	%	Attendance	Total	%	Attendance	Total	%
Mike Pedersen[1]	16	16	100%										6	6	100%				6	6	**100%**
Cathy Bennett	16	16	100%				20	20	100%							6	6	100%	26	26	**100%**
Sandra Bosela	16	16	100%				20	20	100%				6	6	100%	6	6	100%	32	32	**100%**
Michael Calyniuk	16	16	100%	5	5	100%	20	20	100%										25	25	**100%**
Bill Currie[2]	4	4	100%							4	4	100%	1	1	100%				5	5	**100%**
Michael Denham[3]	15	15	100%																N/A	N/A	**N/A**
Shahir Guindi[4]	15	15	100%				17	18	94%							6	6	100%	23	24	**96%**
Vijay Kanwar	15	16	94%	4	5	80%	17	20	85%										21	25	**84%**
Brian O'Neil	16	16	100%	5	5	100%	20	20	100%				6	6	100%				31	31	**100%**
Robert H. Pitfield[5]	12	12	100%							25	25	100%	4	4	100%	5	5	100%	34	34	**100%**
Tracey Scarlett[6]	15	16	94%							27	28	96%				5	6	83%	32	34	**94%**
Abdullah Snobar	15	16	94%	5	5	100%				28	29	97%							33	34	**97%**
Suzanne Trottier	16	16	100%	5	5	100%				29	29	100%							34	34	**100%**
Mary Alice Vuicic	13	16	81%							20	29	69%	5	6	83%	6	6	100%	31	41	**76%**

Notes

(1) Mr. Pedersen is the Chairperson of the Board of Directors and the Governance/Nominating Committee. Although Mr. Pedersen is not a member of any other committee, he attends an extensive number of committee meetings.

(2) Mr. Currie joined the Board of Directors on January 8, 2021. Mr. Currie became a member of the Board Risk Committee on January 8, 2021 and was nominated as the Chairperson of the Board Risk Committee. He became a member of the Governance/Nominating Committee on February 4, 2021.

(3) Mr. Denham is BDC's President and CEO. As President and CEO, Mr. Denham is not a member of any committee, however, he attends an extensive number of committee meetings. Mr. Denham was not eligible to attend the May 27, 2020 Board of Directors meeting because it was an in camera session to discuss the President and CEO's succession with Minister Mary Ng. This meeting has been excluded from the statistics listed above.

(4) Due to potential conflicts of interest, Mr. Guindi was not eligible and recused himself from two Board Investment Committee meetings and one Board of Directors meeting. These meetings have been excluded from the statistics listed above.

(5) Mr. Pitfield ceased to be a member of the Board of Directors on January 8, 2021 and therefore did not attend meetings for the balance of the fiscal year.

(6) Due to potential conflict of interest, Ms. Scarlett was not eligible and recused herself from one Board Risk Committee meeting. This meeting has been excluded in the statistics listed above.

2 Board of Directors

(March 31, 2021)

Mike Pedersen
Chairperson
of the Board
BDC
Toronto, Ontario

Michael Denham
President and CEO
BDC
Montreal, Quebec

Cathy Bennett
Entrepreneur
SheEO
St. John's,
Newfoundland
and Labrador

Sandra Bosela
Co-Head,
Managing Director
and Global Head
Private Equity
OPTrust
Private Markets Group
Toronto, Ontario

Michael Calyniuk
President
MEC Dynamics Inc.
Vancouver,
British Columbia

Bill Currie
Vice Chair
Deloitte Canada
Retired
Toronto, Ontario

Vijay Kanwar
Founder
KMH Cardiology and
Diagnostic Centres Inc.

Founder and President
Lambardar Inc.
Mississauga, Ontario

Brian O'Neil
Managing Partner
A Faire Aujourd'hui Inc.
Toronto, Ontario

Tracey Scarlett
Corporate Director
Edmonton, Alberta

Abdullah Snobar
Executive Director
DMZ at
Ryerson University
Toronto, Ontario

Suzanne Trottier
Director, Capacity
Development and
Intervention
First Nations
Management Board
Vancouver,
British Columbia

Mary Alice Vuicic
Chief People Officer
Thomson Reuters
Toronto, Ontario

To see BDC's directors' biographies, please go to www.bdc.ca.

3 Senior Management Team

(March 31, 2021)

Michael Denham
President and CEO

Michel Bergeron
Chief Strategy
Officer

Stéphane Bilodeau
Chief Information
Officer

Pierre Dubreuil
Executive
Vice President and
Chief Operating Officer

Marie-Chantal Lamothe
Chief Human Resources
Officer

Stefano Lucarelli
Chief Financial Officer

Annie Marsolais
Chief Marketing
Officer

Jérôme Nycz
Executive
Vice President
BDC Capital

Christopher Rankin
Executive
Vice President and
Chief Risk Officer

To see BDC's senior management team members' biographies, please go to www.bdc.ca.

Five-Year Operational and Financial Summary

for the years ended March 31 (in thousands of Canadian dollars)

Operational Statistics	**2021**	2020	2019	2018	2017
Loans					
Committed to clients[1]					
as at March 31					
Amount	**35,496,220**	31,546,910	29,943,724	27,520,367	25,310,146
Number of clients	**59,291**	49,391	47,104	43,989	39,203
Acceptances					
Amount	**8,703,157**	7,405,087	7,222,429	6,832,205	6,616,301
Number	**24,755**	18,608	17,206	17,554	16,427
Asset-backed securities					
Amount committed to clients[1]					
as at March 31	**1,345,784**	1,010,905	996,768	880,516	945,761
Amount authorized (cancelled) and renewed	**335,000**	40,000	90,000	(65,000)[2]	140,000
Subordinate Financing					
Committed to clients[1]					
as at March 31					
Amount	**1,559,162**	1,569,965	1,401,933	1,197,764	974,307
Number of clients	**689**	656	654	640	594
Acceptances					
Amount	**333,314**	543,953	463,401	456,202	325,105
Number	**139**	193	177	207	185
Venture Capital					
Committed to clients[1]					
as at March 31					
Amount	**2,762,465**	2,327,093	2,146,605	1,664,163	1,620,363
Number of clients	**389**	268	261	254	261
Authorizations					
Amount	**591,458**	324,212	587,536	188,276	160,812
Number	**194**	77	99	67	91
BDC					
Total committed to clients	**41,163,631**	36,454,873	34,489,030	31,262,810	28,850,577

(1) Amount committed to clients represents the portfolio outstanding and amount undisbursed, at cost.
(2) Amount cancelled includes $60,000 of authorizations and $125,000 of cancellations.

(in thousands of Canadian dollars)

Financial Information	2021	2020	2019	2018	2017
Net income (loss) and comprehensive income (loss)—by business segments[1] for the years ended March 31					
Financing	**733,103**	32,053	621,272	613,729	450,667
Advisory Services	**(39,424)**	(46,807)	(49,780)	(51,082)	(45,784)
Growth & Transition Capital	**114,833**	(32,945)	73,440	71,174	44,631
Venture Capital	**902,467**	(86,856)	194,147	159,272	5,227
Capital Incentive Programs	**254,383**	(83,444)	46,523	25,170	10,075
Net core income (loss)	**1,965,362**	(217,999)	885,602	818,263	464,816
Credit Availability Program	**(315,499)**				
Net income (loss)	**1,649,863**	(217,999)	885,602	818,263	464,816
Net income (loss) attributable to:					
BDC's shareholder	**1,647,648**	(193,018)	878,482	775,004	465,974
Non-controlling interests	**2,215**	(24,981)	7,120	43,259	(1,158)
Net income (loss)	**1,649,863**	(217,999)	885,602	818,263	464,816
Other comprehensive income (loss)[2]	**(38,213)**	92,953	(67,879)	(40,532)	71,702
Total comprehensive income (loss)	**1,611,650**	(125,046)	817,723	777,731	536,518
Total comprehensive income (loss) attributable to:					
BDC's shareholder	**1,609,435**	(100,065)	810,603	734,472	537,676
Non-controlling interests	**2,215**	(24,981)	7,120	43,259	(1,158)
Total comprehensive income (loss)	**1,611,650**	(125,046)	817,723	777,731	536,518
Financial position information as at March 31					
Loans, net of allowance for expected credit losses	**30,905,481**	27,273,088	25,916,222	23,728,191	21,752,511
Asset-backed securities	**733,322**	777,838	700,343	472,695	518,088
Subordinate financing investments	**1,452,966**	1,240,588	1,152,182	1,052,352	860,448
Venture Capital investments	**2,978,568**	1,721,136	2,027,778	1,663,627	1,317,254
Total assets	**37,148,117**	33,153,358	30,656,454	27,809,166	25,316,765
Total liabilities	**19,130,760**	24,250,559	22,900,694	21,049,963	19,377,470
Total equity attributable to:					
BDC's shareholder	**18,004,095**	8,891,660	7,714,125	6,716,472	5,917,500
Non-controlling interests	**13,262**	11,139	41,635	42,731	21,795
Total equity	**18,017,357**	8,902,799	7,755,760	6,759,203	5,939,295

(1) For detailed information on fiscal 2021 and fiscal 2020 segmented information, please also refer to Note 25—*Segmented information* to the Consolidated Financial Statements.

(2) For detailed information on fiscal 2021 and fiscal 2020 Other comprehensive income (loss), please refer to Consolidated Statement of Comprehensive Income (loss) (page 64).

Glossary

Acceptance—The point at which the client has agreed to the authorized financing terms and conditions that BDC has offered them. Client acceptance follows BDC authorization. (Information on acceptances disclosed in this report is net of cancellations or reductions after client acceptance.)

Allowance for expected credit losses—Represents management's estimate of expected credit losses as at the Statement of Financial Position date. Allowance for expected credit losses can be in impaired or performing portfolio. The expected credit losses on outstanding loans are recorded on the Statement of Financial Position as a deduction from loans and the expected credit losses on loan commitments is recorded in other liabilities.

Allowance on impaired portfolio—Established by the management to measure the expected credit losses on the credit-impaired loan portfolio.

Allowance on performing portfolio—Established by management to measure the expected credit losses on the performing loan portfolio.

Asset-backed securities—Securities created through the securitization of a pool of assets. For example, BDC's securitization contains Canadian AAA-rated term securities backed by loans and leases on vehicles and equipment, as well as dealer floor plan loans.

Authorization—The point at which BDC has completed its due diligence and approved the financing request or venture capital investment. Authorization precedes acceptance. (Information on authorizations disclosed in this report is net of cancellations or reductions after BDC authorization.)

Cross-currency swaps—Agreements to exchange payments in different currencies over pre-determined periods of time.

Debt-to-equity ratio—A measure to ensure BDC operates within its statutory limitations on debts, calculated as the aggregate of borrowings and contingent liabilities over the equity attributable to BDC's shareholder. It also includes preferred shares classified as liabilities, and excludes accumulated other comprehensive income or loss. The statutory limit of BDC's debt-to-equity ratio is 12:1.

Derivative financial instruments—Contracts whose value is "derived" from movements in interest or foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

Direct investments—Investments BDC makes directly in investee companies.

Fair value—The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value represents management's best estimate of the net worth of an investment at the Statement of Financial Position date and may not reflect the ultimate realizable value upon disposal of the investment.

Financing efficiency ratio—A measure of the efficiency with which BDC incurs expenses to generate income on its financing operations. It is calculated as operating and administrative expenses, as a percentage of net revenue. A lower ratio indicates improved efficiency.

Hedging—A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal banking operations.

Impaired loans—Loans are deemed impaired when the interest or principal of the loan is in arrears for three consecutive months or more or if there is reason to believe that a portion of the principal or interest cannot be collected.

Interest rate swaps—Agreements to exchange streams of interest payments—typically, one at a floating rate and the other at a fixed rate—over a specified period, based on notional principal amounts.

Master netting agreement—A standard bilateral contract that enables trading counterparties to agree to net collateral requirements and, in a close-out situation, settlement amounts related to underlying master trading contracts for sales and purchases of financial instruments. The master netting agreement offsets positive balances of one transaction with negative balances of another.

Net change in unrealized appreciation or depreciation of investments—Amount included in income resulting from movements in the fair value of investments for the period.

Net interest income—The difference between interest revenues generated by interest-bearing portfolios, as well as cash equivalents and securities, and the cost of borrowings to fund these assets.

Net realized gains or losses on investments—Gains realized, net of realized capital losses, upon sale or write-off of investments, excluding the net change in unrealized appreciation or depreciation of venture capital and subordinate financing investments.

Net realized gains or losses on other financial instruments—Amounts that are related to structured notes and their associated derivatives. Realized gains or losses occur when financial instruments are repurchased prior to maturity at a price higher or lower than the original purchase price.

Net unrealized gains or losses on other financial instruments—Amounts that are related to structured notes and their associated derivatives. These represent the amounts included in income resulting from movements in the fair value of financial instruments for the period.

Non-controlling interest—The equity in a subsidiary not attributable, directly or indirectly, to BDC.

Performing portfolio—Loans for which there is reasonable assurance that BDC can collect the principal and interest on time.

Provision for expected credit losses—A charge to income that represents an amount that management deems adequate to fully provide for impairment in the loan portfolios, given the composition of the loan portfolios, the probability of default on the loans, the economic environment and the allowance for expected credit losses already established.

Adjusted return on common equity (ROE)—Net income (loss), less preferred share dividends, expressed as a percentage of average common equity. It excludes other comprehensive income or loss on post-employment benefits, accumulated other comprehensive income or loss, and non-controlling interest. It also excludes Capital Incentive Programs (CIP) and the Capital Credit Availability Program (CAP).

Revenue from Advisory Services—Fees charged to clients for management services (diagnostic, proposal and implementation) provided by BDC delivery employees (usually "Business Advisors") and External Consultants part of BDC's national network.

Start-up—A business that is being established for the first time. Also included in this category are existing enterprises that have not yet registered 12 consecutive months of sales.

Subordinate financing—A hybrid instrument that brings together some features of both debt financing and equity financing.

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