
AUDIT AND CONDUCT COMMITTEE CHARTER

1. Purpose

An Audit and Conduct Committee (hereinafter called the “**Committee**”) of the Board of Directors (hereinafter called the “**Board**”) of the Business Development Bank of Canada (“**BDC**” or “**Bank**”) is established to assist the Board to oversee and objectively assess the integrity of its financial statements, internal controls, accounting standards, legal and regulatory compliance, management information systems and the independence of its External Auditors, the Chief Audit Executive (“**CAE**”), the Chief Compliance Officer (“**CCO**”) and the Ombudsperson. The Committee has primary responsibility for the oversight of conduct risk and review.

2. Composition and Operation

2.1 Composition of the Committee

The Committee shall be composed of a minimum of three directors (“**Members**”), as the Board may appoint, one of whom shall be appointed by the Board as Chairperson of the Committee (“**Chairperson**”). The Chairperson shall have financial expertise. If the position of Chairperson is vacant or if the Chairperson is absent or unable to act, the Chairperson of the Board may designate, or the Committee may elect an Acting Chairperson for the meeting. Each Member of the Committee shall be appointed by the Board (having taken into consideration the recommendation of the Governance/Nominating Committee) to hold office on the Committee until such time as a successor is appointed or unless the Member resigns, is removed or ceases to be a director.

Officers or employees of the Bank are not eligible for appointment to the Audit and Conduct Committee. Each Member of the Committee shall be independent, as determined by Canadian securities legislation requirements, and free from any relationship that, in the opinion of the Board, could interfere with the exercise of his/her independent judgment or their ability to represent their own professional view as a Member of the Committee.

Each Member of the Committee shall be financially literate. Financial literacy includes the ability to understand financial statements that present a level of complexity of accounting issues generally comparable to issues that can reasonably be expected to appear in BDC’s financial statements. It also includes the ability to ask challenging and probing questions of senior management and of the Internal and External Auditors.

These requirements are consistent with Treasury Board Guidelines for Audit Committees in Crown Corporations and Other Public Enterprises.

2.2 Operation of the Committee

For the purposes of carrying out its duties or any that are referred to it by the Board and to investigate any matter brought to its attention, the Committee shall have access to all books, records and personnel of the Bank, and may:

- conduct examinations, investigations or inquiries, and engage special legal, accounting or other advisors to assist, on terms and conditions as the Committee deems appropriate;
- direct the External Auditors or the CAE to examine or consider a specific matter or area or to perform a supplemental review;
- approve fees to be paid to the External Auditors and any advisors retained by the Committee for such services.

2.3 Meetings

The Committee shall meet at the call of its Chairperson at least quarterly to review and recommend to the Board for approval the quarterly financial statements and the annual audited financial statements. Meetings may be called by any Member of the Committee, the Chairperson of the Board, the External Auditors, the CAE or the Special Examiners during a special exam.

For the transaction of its business, three Members of the Committee shall constitute the quorum (“**Quorum**”). If a Quorum cannot be obtained, Members who qualify as Committee Members may, at the request of the Committee Chairperson, serve as Committee Members for that meeting.

Matters presented at a meeting of the Committee for decision shall be decided by a majority of votes. In the case of an equality of votes, the Chairperson shall, in addition to the Chairperson’s original vote, have a deciding vote.

BDC’s Corporate Secretary, or in his/her absence one of the Assistant Corporate Secretaries, shall be Secretary to the Committee (“**Secretary**”).

The Secretary shall give notice of Committee meetings by telephone, facsimile, email or other electronic communications, to Committee Members and the External Auditors, who are entitled to attend and participate in each meeting, and to any Special Examiners during a special exam.

Minutes of Committee meetings shall be prepared by the Secretary who shall, subsequent to the Committee’s approval thereof, keep them in a book of minutes.

The President and CEO (“**CEO**”), the Chief Financial Officer (“**CFO**”), the CAE and the CCO may attend Committee meetings and, upon the Committee’s request, any other officer or employee of BDC or special advisor may attend Committee meetings to assist and advise the Committee as required.

The Committee shall regularly hold *in camera* sessions with Committee Members only, the External Auditors, the CFO and the CAE. It shall also meet *in camera* as needed with the CEO, the CCO, the CAMLO, the Special Examiners during a special exam, members of management, special advisors, the Ombudsperson or any other party it deems necessary.

The Audit and Conduct Committee and the Board Risk Committee shall meet from time to time and strive to have cross-memberships.

The Committee shall report to the Board on its activities, findings and recommendations at the first meeting of the Board following each Committee meeting.

2.4 Governance

The Committee shall:

- annually outline a schedule of activities and annual agendas for its meetings. The Committee shall confirm that all responsibilities outlined in this Charter and the annual agendas have been considered, as appropriate;
- annually assess this Charter and evaluate its mandate to ensure that the Charter reflects best practices and is relevant to BDC's business and associated risks and make recommendations to the Governance/Nominating Committee with respect to any proposed modifications;
- assess from time to time its performance against this Charter and provide the results and make recommendations to the Governance/Nominating Committee.

3. **General Responsibilities**

- 3.1 The Committee promotes an overall corporate culture of quality financial reporting and ethical behavior and encourages management to demonstrate a strong commitment to integrity and to prevention and detection of wrongdoing and fraud.

4. **Specific Responsibilities**

The Committee provides an open channel of communication between the Board, management, the External Auditors, the finance, internal audit and compliance functions and the Special Examiners.

4.1 Financial Statements and Related Reports

The Committee shall review BDC's consolidated financial statements, and any report that could materially affect the financial statements, to ensure they are complete and reflect appropriate accounting standards, and seek assurance from management with respect to their accuracy and completeness, prior to recommending them to the Board for approval and disclosure, including:

- the annual audited financial statements, the quarterly financial statements and the management's discussion and analysis as well as the annual report;
- any major financial risks to which the Bank is exposed and the steps management has taken to identify, monitor and control such exposure;
- investments and transactions that could materially affect the financial statements;
- key areas of risk for material misstatement in the financial statements;

- reports on any material legal and regulatory matters that might affect the financial statements, including pending legal actions and contingent liabilities; changes in accounting standards and financial statement presentation related to compliance with International Financial Reporting Standards.

4.2 Internal Controls, Information Management Systems and Disclosure

The Committee shall review and monitor the integrity, adequacy and effectiveness of the internal control framework and information management systems, including:

- approving the internal control framework over financial reporting and reviewing any exceptions to same;
- obtaining reasonable assurance from management and the CAE on the adequacy and effectiveness of the internal control framework, including for fraud and error identification, prevention and detection, and management of contingencies;
- questioning management and the CAE if there are any incidents of fraud;
- reviewing attestations on internal controls as well as reports of material internal control weaknesses from the CEO, the CFO, the CAE, the External Auditors and/or the Special Examiners, as well as on the effectiveness of management's corrective actions;
- reviewing any fraud involving management or other employees who have a significant role in the Bank's internal controls;
- recommending to the Board BDC's disclosure policy and reviewing reports on the adequacy and effectiveness of BDC's disclosure controls and procedures;
- overseeing the adequacy of BDC's information technology to support its mandate;
- reviewing the written certification from the CEO and the CFO on the design and effectiveness of internal controls and disclose all transactions, in compliance with International Financial Reporting Standards.

4.3 Capital Management

The Committee shall:

- recommend to the Board the Capital Management and Dividend Policy;
- review annually with the CFO reports on capital adequacy, including on funding, the material risks identified for capital quantification and the amount of capital earmarked, and allocation of capital;
- review with the CFO the adequacy and effectiveness of the Capital Management Framework and internal controls for capital management;

- review management's proposal with respect to the declaration of a dividend and recommend the payment of a dividend to the Shareholder;
- review any disclosures with respect to regulatory or economic capital in the financial statements and the annual report.

4.4 Oversight of Internal Audit Function

The Committee shall oversee the Internal Audit function and the CAE who reports functionally to the Committee and administratively to the CEO and is independent from the businesses whose activities he/she reviews. The Committee shall:

- review and recommend to the Human Resources Committee the appointment, removal and succession planning of the CAE;
- review and approve on a regular basis the mandate of the CAE and its function;
- review and approve on a regular basis the organizational structure as well as the budget and resources of the Internal Audit function;
- annually assess the performance, independence and effectiveness of the CAE and his/her function and make recommendations to the Human Resources Committee for the CAE's compensation, which shall be aligned with risk management objectives.

The Committee shall approve the annual internal audit plan, including the methodology, key areas of focus, planned audits, periodic reports to the Committee, performance measures and internal audit resources;

The Committee shall review:

- the results of internal audit activities, including any material issues reported to management and the timing, execution and effectiveness of management's responses;
- the status of identified control or risk management systems weaknesses reviewed with the CAE;
- any issues brought forward by the CAE, including any difficulties encountered by the Internal Audit function such as audit scope, information access or resource limitations;
- any unresolved issues between management and Internal Audit to ensure they are resolved.

4.5 Oversight of Compliance Function

The Committee shall oversee the activities of the Compliance Function and ensure that the CCO is independent from businesses activities. The Committee shall review and approve on a regular basis:

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- the mandate of the CCO and the Compliance Function, including its work plan and objectives;
 - the adequacy of the organizational structure, budget and resources of the Compliance Function;
 - the performance, independence and effectiveness of the Compliance Function, no less than annually.

The Committee shall:

- approve the Regulatory Compliance Policy;
- review and discuss semi-annual reports from the CCO on BDC's compliance with applicable laws and regulations, the effectiveness of BDC's compliance controls, any follow-up on outstanding issues and any reports by regulators related to the Compliance Function, including on compliance with privacy laws and regulations, related risks, and incidents;
- overseeing procedures to restrict the use and disclosure of confidential and personal information;
- reviewing reports related to the use and disclosure of client and employee information;
- review with the CCO the status of identified control weaknesses with respect to Legal and Regulatory Compliance and the timing, execution and effectiveness of management's responses;
- provide a forum for the Chief Compliance Officer to have unfettered access to the Committee.

4.6 Oversight of the CAMLO Office

The Committee shall oversee the activities of the Chief Anti-money Laundering Officer (CAMLO), who reports to the EVP and CRO, and ensure that the CAMLO:

- is independent from the lines of business and has no line of business responsibilities;

has unfettered access to the Audit and Conduct Committee to raise any compliance issues or concerns with respect to the Know Your Client, Anti-Money Laundering, Countering the Financing of Terrorism and Sanctions Policy ("**KYC/AML/CTF/S Policy**").

The Committee shall:

- approve the KYC/AML/CTF/S Policy;
- review the CAMLO's report on the design and operating effectiveness of internal controls with respect to KYC/AML/CTF/S;

- review with the CAMLO the status of identified control weaknesses and the timing, execution and effectiveness of management's responses.

4.7 Oversight of Ombudsperson

The Ombudsperson reports directly to the Audit and Conduct Committee and administratively to the CEO. The Committee shall oversee the activities of the Ombudsperson and ensure that he or she is independent and has the resources necessary to fulfill his or her mandate. The Committee shall:

- receive annual reports from the Ombudsperson on any complaints received from employees, suppliers, the public or any other stakeholder;
- review any complaints of accounting irregularities or inadequate accounting procedures;
- assess any trends or consequences and order action plans or remedial action to be undertaken.

4.8 External Auditors

The Committee shall review the terms of engagement and compensation of the External Auditors, who report directly to the Committee and are accountable to the Board and recommend to the Board their appointment and terms. The Committee shall receive a recommendation from management regarding the appointment of the External Auditors based on BDC's needs and make a recommendation to the Board which, once approved, is communicated by management to the Privy Council Office who decides. The Committee shall assess their qualifications, independence, and performance including the rotation of firms. It shall ensure there are no conflicts of interest regarding employees of the External Auditors.

The Committee shall approve the External Auditors' annual audit plan, including the scope, staffing, coordination with Internal Audit, and the fees.

The Committee shall review:

- the annual audited financial statements and the quarterly financial statements with the External Auditors and management, including the management's discussion and analysis and any material changes recommended by the External Auditors;
- the audit reports and any material correspondence between the External Auditors and management related to audit findings;
- any unresolved issues between management and the External Auditors and see that issues are resolved;
- all non-audit assignments undertaken by the External Auditors and approve them as per the attached policy for the pre-approval of certain External Auditor non-audit assignments.

4.9 Special Examinations

The Joint Auditors conduct a Special Examination at least once every ten years. The Committee shall review and advise the Board on the scope of the Special Examination and shall:

- assess and approve the plan of the Special Examiners, including the scope, staffing and recommend their fees to the Board;
- meet privately with the Special Examiners whenever it deems necessary but at least once during the Special Examination period;
- review the draft Special Examination report prepared by the Special Examiners and provide feedback to the Special Examiners before it is made final;
- review the adequacy of management's draft responses and action plans resulting from the Special Examination and provide feedback before the report is made final and submitted to the Board;
- approve the Special Examination report and submit it to the Board for information;
- review with Internal Audit follow-up reports on the timing, execution and effectiveness of any agreed upon management actions resulting from the Special Examination.

4.10 Integrity and Conduct Review

The Committee is responsible to review the overall effectiveness of BDC's standards of integrity and review reports on the Bank's conduct risk, including potential trends. The Committee shall ensure that management has adequate procedures in place to manage:

- compliance with the Code of Conduct, Ethics and Values including management of any material violations;
- identification and resolution of potential conflicts of interest;
- protection of BDC's confidential information including proper classification, management and destruction of business and personal (employees' and clients') information;
- personal trading of employees and directors;
- officers' and directors' expenses and perquisites and disclosure of same on the Bank website;
- the disclosure of wrongdoing, which includes the Bank's Policy on the Disclosure of Wrongdoing in the Workplace, for the confidential and anonymous disclosure of wrongdoing or complaints by the Bank's employees or any third parties; and

- the reporting of issues to the Ombudsperson with confidentiality protected to the greatest extent possible.

The Committee shall review reports on conduct issue to address conduct indicators and prescribe remedial action on the part of management as appropriate.

In contributing to the Committee's discharging of its duties for the above Charter, each Member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended, or may be construed, to impose on any Member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board Members are subject. The essence of the Committee's duties is monitoring and reviewing to gain reasonable assurance (but not to ensure) that the financial accounting functions are being conducted effectively and the Bank's financial reporting and disclosure objectives are being met to enable the Committee to report thereon to the Board.

Appendix 1
BUSINESS DEVELOPMENT BANK OF CANADA
AUDIT AND CONDUCT COMMITTEE
NON-AUDIT SERVICES APPROVAL POLICY

A. Non-Audit Services

Under the Charter of the Audit and Conduct Committee of the Board (“**Audit and Conduct Committee**”), audit services such as the Annual Financial Statements Audit, the periodic Special Examination and the work of the External Auditors are presented for review and approval when they occur.

The main objective of this Policy is to ensure the independence of the External Auditors. The Bank may consider engaging the External Auditors to carry out other non-audit services provided that the External Auditors shall not be auditing his own work and that such services will not influence the independence of the External Auditors and are not on the list of Prohibited Services defined in section E. Prohibited Services. Such Non-Audit Services are subject to a cap equal to 200% of the Annual Financial Statements Audit fees.* Any fees resulting from the engagement of the External Auditors by another bank to act as liquidator or trustee for a BDC client are excluded from this cap.

* The cost of the audit only reflects half of the audit effort as 50% of audit services (performed by the Office of the Auditor General) have no cost. As a result, 200% of the annual audit service fees reflects 100% of the cost of the audit effort.

B. Approval of Non-Audit Services

The Chief Financial Officer (“**CFO**”) shall be responsible for coordinating services with the External Auditors and will submit all requests for Non-Audit Services, if required, to the Audit and Conduct Committee. The request for such Non-Audit Service should include a description of the service, the estimated fee, a statement that the service is not a Prohibited Service and the reason the External Auditors is being engaged. The CFO may also submit to the Audit and Conduct Committee requests for exceptions to this Non-Audit Services Approval Policy and the Audit and Conduct Committee may approve such exceptions.

Non-Audit Services where the aggregate fees for the mandate are estimated to be less than or equal to \$100,000

Recommendations, in respect of each Non-Audit Service engagement, will be submitted to the CFO (or his/her temporary delegate) for consideration and approval.



Non-Audit Services where the aggregate fees for the mandate are estimated to be greater than \$100,000.

Recommendations, in respect of each Non-Audit Service engagement, will be submitted by the CFO to the Audit and Conduct Committee for consideration and approval, generally at its next meeting or at a special meeting called for the purpose of approving such services. The engagement may commence upon approval of the Audit and Conduct Committee.

NOTE: A service is approved if it was not recognized as a Non-Audit Service at the time of engagement, however it was subsequently identified and brought to the attention of the Audit and Conduct Committee and approved prior to the completion of the mandate.

D. Reporting

The CFO will regularly provide the Audit and Conduct Committee with a report on Non-Audit Services.

Occasionally, BDC may become a party to a recovery services mandate to be provided by the External Auditors awarded by a third party or partner who is also financing a BDC client. In such cases, BDC management is permitted to agree to be bound by the mandate. A consequence of this may be that where expenses are not recoverable from the client or the proceeds from realized assets, BDC may become liable for settlement. The CFO will report to the Audit and Conduct Committee on these cases on a best effort basis.

E. Prohibited Services means:

1. Bookkeeping or other services related to the audit client's accounting records or financial statements.
2. Financial information systems design and implementation.
3. Appraisal or valuation services, fairness opinions, or contribution-in-kind reports.
4. Actuarial services for items recorded in the financial statements.
5. Internal audit outsourcing services.
6. Management functions.
7. Human resources.
8. Broker-dealer, investment adviser, or investment banking services.
9. Certain corporate finance and other services.
10. Legal services and expert services unrelated to the audit.
11. Any other services that are prohibited by applicable regulations.

Appendix 2

Policies Approved by the Audit and Conduct Committee

- Regulatory Compliance Policy
- Disclosure Policy
- Procurement and Contracting Policy
- Business Expenses Policy
- Capital Management and Dividends Policy
- IT Policy (to be completed)
- Information Security Policy
- Know Your Client, Anti Money Laundering, Countering the Financing of Terrorism and Sanctions Policy (KYC/AML/ATF/S Policy)