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2017 Annual Report

The only bank **devoted exclusively** to entrepreneurs

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Fiscal 2017 by the numbers

Close to
49,000 clients
served coast to coast to coast

118
business centres
across Canada

4.6
million visitors
to BDC's website

94%
client satisfaction

$29B in capital
committed to small and medium-sized businesses

More than **$1B**
invested in 700 innovative
high-tech businesses

$465M
in net income reinvested
to support entrepreneurs

$621M
in financing to majority **women-owned**
businesses since fiscal 2016

$135M
venture capital fund launched to
support energy and clean-tech start-ups

Message from the Chairperson of the Board of Directors

BDC's strong performance in fiscal 2017 saw it reach more entrepreneurs and have a greater impact on their businesses. BDC is now directly or indirectly supporting a record number of close to 49,000 clients in all industries and in every part of Canada.

I am pleased to present BDC's annual financial report for fiscal 2017. BDC had another successful year, providing Canadian entrepreneurs with the financing and advice they need to build resilient, profitable, growing businesses.

BDC's strong performance in fiscal 2017 saw it reach more entrepreneurs and have a greater impact on their businesses. BDC is now directly or indirectly supporting a record number of close to **49,000 clients** in all industries and in every part of Canada. This is a 17% increase compared to the previous year, when we served 42,000 clients, and demonstrates that more and more entrepreneurs know that BDC can help and also that they find our services relevant.

BDC is the only bank dedicated exclusively to entrepreneurs, helping them overcome their challenges and become more competitive at home and abroad. I am happy to report that BDC is stable, profitable and effectively fulfilling its mandate of supporting entrepreneurs and promoting entrepreneurship throughout Canada.

More impact on more entrepreneurs

In fiscal 2017, the Bank provided increased access to capital, with the number of transactions rising to 16,400. We also reached a total of $29 billion committed to small and medium-sized businesses. We were also proud to see that **94% of BDC's clients were satisfied** with the services they received.

I wish to congratulate President and CEO Michael Denham and his management team on an excellent year. The Bank's performance and its increased impact on entrepreneurs confirm that Michael and his team continue to reach out to more Canadian businesses to help them innovate, grow and compete.

A clear strategic direction

BDC has a **robust and effective corporate governance** structure in place to maintain the confidence and trust of our stakeholders: entrepreneurs, employees, the public and our sole shareholder, the Government of Canada.

During the last fiscal year, the board provided strong stewardship in setting BDC's strategic direction in consultation with management and in supporting the Bank's guiding aspiration: to make Canadian entrepreneurs the most competitive in the world.

Key board activities in fiscal 2017 included the following.

> The board oversaw the introduction of BDC's **new brand identity**. The new brand is modern and accessible, and reflects our focus on entrepreneurs and their challenges. It was introduced to Canadians in a major visibility campaign that produced excellent results.

> The board supported efforts to make it easier and faster for entrepreneurs to do business with BDC. These include making more products and services accessible online and via mobile devices. As a result, our account managers are better equipped to deliver fast, efficient banking and advice to entrepreneurs. At the same time, BDC continued its efforts to be closer to where entrepreneurs are by opening new business centres during the year to bring the total to 118 across Canada.

> The board monitored the Bank's follow-up to a review by the Office of the Superintendent of Financial Institutions, which included separating financial management from risk management in our corporate structure. BDC also hired a Chief Risk Officer to lead risk management and risk oversight functions, and further define their scope.

> The board continued to support the successful implementation of the Venture Capital Action Plan (VCAP), a federal government initiative designed to help create a vibrant and sustainable venture capital ecosystem in Canada, led by the private sector. VCAP's funds of funds raised a total of $1.35 billion, with over **$900 million in private sector capital attracted to the asset class**.

A central role in creating a more innovative Canada

I am pleased that BDC will play a key role in the federal government's Innovation and Skills Plan, announced in the 2017 budget with the goal of making Canada a world-leading centre for innovation.

The plan's highlights included the following:

> the Venture Capital Catalyst Initiative, which will make $400 million available over three years through BDC to support innovation and Canadian entrepreneurs

> nearly $1.4 billion in equity and working capital financing through BDC and Export Development Canada to help support Canada's clean-tech sector

The Bank remained on target to deliver on its fiscal 2016 commitment to **increase lending to women-owned business** to at least $700 million over three years. Close to 90% of this commitment had been authorized before the end of fiscal 2017, so we are tracking to meet this commitment well ahead of plan.

In addition, BDC announced a $50-million program offering both venture and growth capital to women-led firms.

All of this activity could not have been achieved without the hard work of BDC's 2,200 employees. On behalf of the board, I wish to sincerely thank them for their dedication.

I also would like to thank members of the board for their hard work and support. I would particularly like to thank departing members Prashant Pathak, Brian Hayward and Eric Boyko for their service and welcome new board members Sandra Bosela and Anne Whelan.

A vision for a more prosperous future

Looking ahead, I am confident BDC has the vision, the will and the tools to do even more to **support entrepreneurs to innovate, become more productive, scale up their operations and expand internationally**. The result will be a more competitive, more prosperous country for all Canadians.

Sincerely,

Samuel L. Duboc

Message from the President and CEO

As the only bank devoted exclusively to entrepreneurs, we have a clear and unique purpose: to create prosperity for Canada by providing the guidance and financial support entrepreneurs need to achieve their ambitions.

Looking back on my first full year as BDC's President and CEO, I am proud of the solid progress we have made in fulfilling our mission to help more Canadian entrepreneurs build profitable, successful and innovative businesses.

As the only bank devoted exclusively to entrepreneurs, we have a clear and unique purpose: **to create prosperity for Canada by providing the guidance and financial support entrepreneurs need to achieve their ambitions**.

Our aspiration is to make Canadian entrepreneurs the most competitive in the world. To do so, we set out four key goals for ourselves at BDC:

1. **Have greater impact on more entrepreneurs**
2. **Be easy to do business with**
3. **Be a great place to work**
4. **Be profitable so we can do more**

There was a tremendous amount of activity across BDC in fiscal 2017. We made great strides in meeting the needs of our client-entrepreneurs and also on each of these priorities.

We had a greater impact on more entrepreneurs
We are now serving almost **49,000 entrepreneurs from coast to coast to coast** and the dollar value of the loans our clients accepted jumped by 37% from last year.

Last year, our Advisory Services team completed a multi-year transformation to provide better, more comprehensive guidance to entrepreneurs on key management challenges. As part of this initiative, we delivered more than 1,700 consulting mandates, helping entrepreneurs make their businesses more innovative, productive and competitive.

We also built a solid foundation at our Growth Driver Program, a targeted approach to supporting leaders of high-impact firms with the potential to have an outsized effect on propelling our economy.

BDC Capital—our investment arm—continued to play a prominent role in fostering a **healthy, vibrant Canadian innovation ecosystem**.

Our Growth & Transition Capital team financed an increasing number of businesses, providing more capital to high-growth, asset-light firms looking to finance new projects or business transitions.

On the venture capital front, we now have **more than $1 billion** committed directly and indirectly to support nearly **700 high-tech businesses**.

As part of our strategy to turn promising Canadian start-ups into global champions, last year we continued to pay particular attention to pivotal technology areas, such as cleantech and artificial intelligence.

For example, our industrial, clean and energy technology fund has invested $131 million in 26 innovative companies last year.

Increased support for women entrepreneurs

A few years ago, we took a comprehensive approach to supporting the needs of women-led firms and we are now offering a full spectrum of venture and growth capital solutions.

Last year, we announced a **$50-million investment in women-led technology firms** to complement our fiscal 2016 commitment to increase term lending to majority women-owned businesses to at least $700 million over three years.

Encouraging a diversified economy

We also continued to provide support to the energy industry. We made an additional $350 million available in new loans and advisory services to help businesses struggling with the decline in oil and gas prices, bringing our **total incremental support to $850 million**.

We also signed a letter of intent with the Government of Alberta to facilitate access to capital and business services for companies in the province. And we entered into an agreement with ATB Financial to each contribute $500 million in new business loans to small and mid-sized businesses in Alberta.

We are easier to do business with

More Canadians entrepreneurs are familiar with us thanks to the successful rollout of our new brand identity. We are proud of our new look and message, because they are helping us reach more entrepreneurs with our unique approach, which goes past financing to include the know-how to run a business better.

We are also striving to make our interactions with clients faster, easier and simpler for them. As part of this effort, we opened six new BDC business centres, bringing the total to 118.

We also continued to automate our loan processes and better target our offerings to different sizes and needs of businesses. As a result, we have dramatically increased the number of **loans that we are authorizing online**.

Our website, **BDC.ca, attracted 4.6 million visitors last year**, an increase of 20% from the previous year. This is a reflection of our continuous efforts to offer high-quality, useful and inspiring content to help entrepreneurs address the challenges they are facing in their businesses.

For example, we created an online productivity benchmarking tool, which has received more than 15,000 visits since its launch in October 2016. This free tool allows entrepreneurs to measure the productivity level of their business and compare it with that other businesses in the same industry. We are confident this tool is a great first step toward helping solve the productivity challenge many Canadian businesses are facing.

BDC continues to be a great place to work

I am proud of the work environment we have built at BDC. Once again, we were recognized as one of **Canada's Top 100 Employers**, the 11th consecutive year we have received this honour.

Another indication of the quality of working life at BDC is the appeal we have for job seekers. Last year, we attracted C.V.s from 29,000 candidates for positions.

I would like to take this opportunity to **thank our 2,200 employees** for not only helping create a wonderful work environment, but also for all you did throughout the year to ensure our success supporting entrepreneurs.

We are profitable, so we can do more for entrepreneurs

We have high aspirations for the future based on solid evidence that our unique approach to lending and providing advice to entrepreneurs is making a difference. To be able to do even more, we need to continue to be profitable as we have been consistently over the years.

Last year, we reported a consolidated net income of $465 million. This will provide more capacity for lending and investing in the future.

Working with entrepreneurs to make a difference for all Canadians

We know there is still work to be done to **make Canadian entrepreneurs the most competitive in the world**. We need our businesses to continue to innovate, grow and be competitive, both here and abroad.

At BDC, we are stepping up our game year after year to do our part. We are Canada's development bank and, together with entrepreneurs, we can make a difference for all Canadians.

Sincerely,

Michael Denham

Management's Discussion and Analysis

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1 Economic Environment

According to the International Monetary Fund, global economic growth stood at 3.1% in calendar 2016, down slightly from the previous year (3.2%).

Growth slowed sharply in advanced economies, while in emerging and developing countries overall, the economy grew at about the same pace as in the previous year. In China, however, gross domestic product (GDP) growth declined from 6.9% in 2015 to 6.7% in 2016. China's transition from an export-based economy to a model based on domestic consumption is continuing, at the cost of slower rate. India, for its part, registered one of the highest growth rates in the world in 2016, at 7.6%.

The European economy was resilient, despite the Brexit victory, which generated uncertainty. GDP in the euro area increased by 1.7%. Japan again experienced modest economic growth, with a GDP increase of 1.0%.

In the United States, growth stood at 1.6% in 2016, down from 2.6% the year before. Employment grew steadily and the unemployment rate dropped a few percentage points to finish the year at 4.7%. The good performance of the labour market led to an increase in the average hourly wage, which stimulated consumption. Despite still-favourable credit conditions, residential investment grew less vigorously than in the previous year and non-residential investment declined. Finally, the U.S. dollar continued to appreciate, leading to a further decline in net exports.

Growth accelerated in Canada from 0.9% in 2015 to 1.4% in 2016. Although crude oil prices gradually strengthened during the year, they remained relatively weak and continued to slow down economic growth, although to a lesser extent than in 2015. Production in the oil and gas extraction sector fell again in 2016, but at a slower pace. Similarly, investments in the oil sector declined markedly last year, but not as much as they did the year before.

Activity progressed at a healthy pace in the service industry in 2016, particularly in finance and insurance, real estate, transportation and warehousing, and wholesale and retail trade. Manufacturing output, on the other hand, increased little.

The Canadian dollar, which had depreciated strongly against the U.S. dollar in 2015, appreciated in early 2016 in response to the rise in crude oil prices. However, the expected widening of the Canada–U.S. interest rate spread limited the loonie's appreciation. The market anticipated that the Federal Reserve would raise its policy rate, which it did at the end of the year. As predicted, the Bank of Canada did not change its key rate. Although the Canadian dollar remained at an export-friendly level, export growth was generally weak. Some exports, however, were very strong, notably those of automotive vehicles and parts, wood products, and consumer goods.

The Canadian labour market situation improved last year: Employment growth was robust, especially in the second half of the year, and the unemployment rate fell slightly to reach 6.9% at the end of the year. The increase in employment, combined with still very low interest rates, stimulated household consumption and residential investment.

In summary, low oil prices further hampered economic growth in Canada in 2016, but less than they did the year before. Manufacturing output increased little, while the service industry made good progress. Exports were weak overall, but several sectors stood out, notably the automotive industry. Consumption and residential investment benefitted from the good performance of the labour market and low interest rates.

2 Performance Measures Results

In our Corporate Plan, we present performance measures with which we measure our organizational effectiveness and efficiency. We track and present our performance against these objectives.

Core measures

Objective	Performance measure
Provide financing and advisory services to small businesses	→ Acceptances of Financing and Growth & Transition Capital loans with a commitment size of $750,000 or less (number)
	→ One-to-one Consulting mandates for clients with revenues of $15 million or less (number)
Provide "asset-light" financing	→ Acceptances of Growth & Transition Capital and Financing unsecured loans ($ in millions)
Help restore the venture capital asset class to profitability to attract private sector investors	→ BDC general partners' (GPs') total value to paid-in capital (TVPI)[1] (ratio)
Make it easy for clients to do business with BDC	→ Very satisfied clients[2] (percentage)
Work in partnership to extend reach and provide support to entrepreneurs	→ Transactions done in partnership[3] (number)
	→ Indirect clients, excluding VCAP (number)
Support Canada's most promising firms	→ Acceptances by high-growth firms, Growth & Transition Capital (percentage)
	→ Total revenue of high-impact firms that participate in the program ($ in millions)

Target fiscal 2017	Result fiscal 2017	Percentage achieved	Comment
11,000	**12,926**	**118%**	BDC is striving to help small businesses and meet their financing needs.
1,600	**1,712**	**107%**	BDC understands that small businesses need more than money to grow and offers advisory solutions to support them.
1,210	**1,249**	**103%**	BDC supports businesses requiring financing, even if they have little or no collateral.
1.24	**1.25**	**101%**	BDC works hard to demonstrate profitability in its venture capital operations, to attract investors in this asset class.
65	**66**	**102%**	BDC's continuous efforts to understand entrepreneurs and their needs create a positive client experience.
2,200	**2,424**	**110%**	BDC leverages its strong relationships to ensure that entrepreneurs succeed.
8,000	**9,016**	**113%**	To support more entrepreneurs, BDC is partnering with smaller financing companies to help small and medium-sized companies succeed.
35	**36**	**103%**	BDC recognizes that high-growth firms are part of a vibrant economy and supports them.
1,500	**1,840**	**123%**	BDC supports Canada's most promising firms and helps them fully contribute to the Canadian economy.

(1) TVPI is a fund's investment multiple; it is calculated by dividing the fund's cumulative distributions and residual value by the paid-in capital. BDC's GP funds are focused on information technology (IT), health care (HVF) and industrial, clean and energy technology (ICE), all three excluding Legacy, and IT II, HVF II and ICE II.

(2) Clients who gave a score of 9 or 10 out of 10 for overall satisfaction with BDC's services.

(3) Includes transactions done with chartered banks, other lenders, government agencies and other Crown corporations, and community futures and other economic development agencies, and under specific agreements.

Specific initiatives

Objective	Performance measure
Help entrepreneurs apply information and communications technology (ICT) to their business and support firms that create ICT	→ Annual Financing and Growth & Transition Capital provided ($ in millions)
	→ Cumulative total of venture capital provided, up to fiscal 2017 ($ in millions)
Support women entrepreneurs	→ Financing provided to majority women-owned businesses, fiscal 2017 ($ in millions)

Impact on entrepreneurs

Objective	Performance measure
Provide financing and advisory services that enable clients to grow and succeed	→ Clients who reported a positive impact on their business after receiving services from BDC (percentage)
Help entrepreneurs take advantage of global opportunities	→ Clients who export (number)

Target fiscal 2017	Result fiscal 2017	Percentage achieved	Comment
200	**345**	**173%**	BDC committed to providing $200 million per year over a three-year period, up to fiscal 2017, in Financing and Growth & Transition Capital. BDC achieved 173% of that annual commitment in fiscal 2017. BDC's ICT strategy continues to resonate with entrepreneurs.
300	**413**	**138%**	BDC committed to providing a cumulative total of $300 million in venture capital over a three-year period, up to fiscal 2017. At the end of fiscal 2017, BDC had reached 138% of that commitment.
230	**329**	**143%**	BDC has committed to provide a cumulative total of $700 million over a three-year period, up to fical 2018, in financing to majority women-owned businesses. At the end of fiscal 2017, BDC had reached 143% of its annual commitment and 89% of its three-year target. BDC pays particular attention to women entrepreneurs and focuses on meeting their evolving expectations.

Target fiscal 2017	Result fiscal 2017	Percentage achieved	Comment
89	**89**	**100%**	BDC continues to ensure that clients receive tailored support that meets their needs.
5,750	**5,941**	**103%**	BDC recognizes the importance of exporting and supports entrepreneurs who do so.

3 Analysis of Financial Results

Lines of Business

BDC reports on six business lines: Financing, Growth & Transition Capital, Venture Capital (VC), Advisory Services (previously known as BDC Advantage), Securitization and Venture Capital Action Plan (VCAP).

Activities

The Business Development Bank of Canada (BDC) is the only bank devoted exclusively to Canadian entrepreneurs, accompanying them at every step of their business journey. BDC provides a complementary combination of guidance, investment and financial support to help entrepreneurs take the necessary steps to succeed.

Financing plays a key role in facilitating access to funding for entrepreneurs and supporting the competitiveness of small and medium-sized entrepreneurs (SMEs). During the year, clients of Financing accepted a total of $6.6 billion in loans, compared to $4.8 billion last year. This significant increase in activity in fiscal 2017 results from market conditions and BDC's investments in technology and processes enhancements to make it easier for entrepreneurs to do business with the Bank. This reflects BDC's mandate and complementary role in meeting the needs of underserved entrepreneurs.

Growth & Transition Capital continued to support the growth plans of Canadian entrepreneurs through its diverse product offering, with clients accepting a total of $320.5 million in financing this year, compared to $259.1 million last year.

BDC continued to strengthen the innovation ecosystem with its venture capital activities. These helped Canadian innovators launch and grow technology-focused businesses and commercialize innovation, while also serving to build the skills of VC fund managers. In fiscal 2017, Venture Capital authorized investments totalling $160.8 million, compared to $253.1 million last year.

The slowing pace of BDC's Venture Capital investments in fiscal 2017 reflects the slowdown in VC fundraising activities. In addition, the Canadian VC market has evolved in that VCAP, managed by BDC on behalf of the government, has resulted in the scaling of several larger fund managers that are able to attract additional fund investors. VCAP attracted significant private sector investments and has now met its goal of supporting the closing of four private sector-led funds of funds with a total of $1.35 billion under management. This has resulted in over $900 million in private investor capital being added to the ecosystem.

At the beginning of fiscal 2017, BDC Advantage was renamed Advisory Services, to better reflect the full range of services it offers. Advisory Services increased its reach in fiscal 2017 with revenues of $20.4 million, 22% higher than the $16.7 million recorded last year, and with more than 1,700 consulting mandates delivered.

BDC also maintained its role in the securitization market, where SMEs access financing for the vehicles and equipment they need to improve productivity, with disbursements of $227.6 million during fiscal 2017.

Financial Results Overview

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

Consolidated net income

BDC reported consolidated net income of $464.8 million this year. Net income attributable to BDC's shareholder amounted to $466.0 million, while a net loss of $1.2 million was attributable to non-controlling interests. Non-controlling interests relate only to Growth & Transition Capital and Venture Capital operations.

Net income from Financing was $447.0 million, an increase of $5.2 million from last year. The increase in profitability was mainly due to higher net interest and fee income as a result of strong portfolio growth. This was partially offset by a higher individual provision for credit losses, reflecting the economic uncertainty due to declining oil prices, and by higher operating and administrative expenses to support portfolio growth.

Net income from Growth & Transition Capital was $44.6 million, $9.1 million lower than last year. The decrease was mainly attributable to higher net change in unrealized depreciation of investments compared to record-high results in fiscal 2016.

For the third year in a row, Venture Capital recorded positive results: $5.2 million in net income for fiscal 2017, compared to $67.4 million recorded last year. Fiscal 2016 net income was favourably impacted by a significant fair value appreciation following an external round of financing for one of our investees.

Advisory Services reported a net loss of $45.8 million, compared to a net loss of $31.6 million last year. This is higher than last year, as BDC continues to invest to develop its non-financial services. Most of what Advisory Services does is considered an investment in fostering Canadian firms' competitiveness.

Net income from Securitization was $3.7 million, $0.6 million higher than last year, due to higher net interest and fee income, mainly as a result of portfolio growth.

VCAP recorded net income of $10.1 million, compared to net income of $3.3 million last year, mainly due to a higher net change in unrealized appreciation of investments.

Net loss attributable to non-controlling interests was $1.2 million in fiscal 2017 ($0.2 million in net income from Growth & Transition Capital and $1.4 million in net loss from Venture Capital), compared to net income of $2.3 million in fiscal 2016 ($4.5 million in net income from Growth & Transition Capital and $2.2 million in net loss from Venture Capital).

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

	2017	2016	2015	2014	2013
Financing	**447.0**	441.8	453.4	433.8	433.1
Growth & Transition Capital	**44.6**	53.7	38.5	23.3	34.7
Venture Capital	**5.2**	67.4	23.3	(12.0)	(8.6)
Advisory Services	**(45.8)**	(31.6)	(24.2)	(16.9)	(12.4)
Securitization	**3.7**	3.1	4.0	5.8	11.4
Venture Capital Action Plan	**10.1**	3.3	(4.3)	(1.4)	–
Net income	**464.8**	537.7	490.7	432.6	458.2
Net income attributable to:					
BDC's shareholder	**466.0**	535.4	490.5	426.0	454.7
Non-controlling interests	**(1.2)**	2.3	0.2	6.6	3.5
Net income	**464.8**	537.7	490.7	432.6	458.2

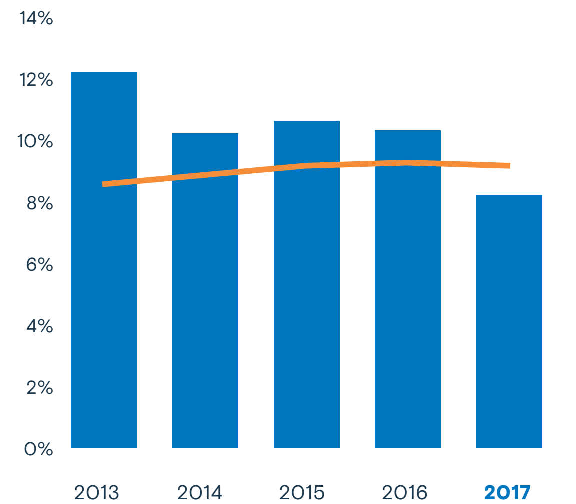
Return on common equity

BDC's return on common equity (ROE) was 8.2% in fiscal 2017, slightly lower than the 10-year moving average, as BDC continues to invest to increase its reach and visibility, deploy new initiatives in Advisory Services, support firms affected by the price of oil, and invest in technology and processes.

Consolidated comprehensive income

Consolidated comprehensive income for fiscal 2017 was $536.5 million, compared to $494.1 million last year. Fiscal 2017 consolidated comprehensive income comprised $464.8 million in consolidated net income and $71.7 million in other comprehensive income (OCI). The increase in OCI for the year was mostly due to the remeasurement gain on the net defined benefit asset or liability of $72.8 million, compared to a loss of $39.5 million in fiscal 2016. For the most part, this gain was caused by higher returns on pension plan assets, partially offset by lower discount rates used to value the net defined benefit liability. For further details, refer to Note 19—*Net Defined Benefit Asset or Liability* to the Consolidated Financial Statements.

Return on common equity (ROE)
as at March 31



	2013	2014	2015	2016	**2017**
ROE[1]	12.0%	10.2%	10.6%	10.3%	**8.2%**
ROE - 10-year moving average	8.6%	8.9%	9.2%	9.3%	**9.2%**

(1) ROE is calculated based on equity attributable to BDC's shareholder (see the Glossary on page 132 for a detailed definition).

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

	2017	2016	2015	2014	2013
Net income	**464.8**	537.7	490.7	432.6	458.2
Other comprehensive income (loss)					
Items that may be reclassified subsequently to net income					
Net change in unrealized gains (losses) on available-for-sale assets	**(1.7)**	(3.0)	1.7	0.3	(4.4)
Net change in unrealized gains (losses) on cash flow hedges	**0.6**	(1.1)	0.7	(3.4)	(2.2)
Total items that may be reclassified subsequently to net income	**(1.1)**	(4.1)	2.4	(3.1)	(6.6)
Items that will not be reclassified to net income					
Remeasurements of net defined benefit asset or liability	**72.8**	(39.5)	(32.7)	52.7	(18.3)
Other comprehensive income (loss)	**71.7**	(43.6)	(30.3)	49.6	(24.9)
Total comprehensive income	**536.5**	494.1	460.4	482.2	433.3
Total comprehensive income attributable to:					
BDC's shareholder	**537.7**	491.8	460.2	475.6	429.8
Non-controlling interests	**(1.2)**	2.3	0.2	6.6	3.5
Total comprehensive income	**536.5**	494.1	460.4	482.2	433.3

Performance Against Objectives

The consolidated net income of $464.8 million was $97.1 million better than the corporate plan objective. All business lines achieved better results than planned. Financing's net income was $25.2 million higher than planned, primarily due to a lower provision for credit losses than anticipated.

Both Venture Capital's and Venture Capital Action Plan's net income were higher than expected, mainly due to a higher-than-anticipated net change in unrealized appreciation of investments and higher net unrealized foreign exchange gains on the U.S. venture capital portfolio.

Growth & Transition Capital's net income of $44.6 million also contributed to the variance and was $8.4 million higher than the corporate plan objective, mainly due to a lower-than-anticipated net change in unrealized depreciation of investments.

Advisory Services' net loss of $45.8 million was $8.6 million lower than expected, mainly as a result of lower-than-anticipated operating and administrative expenses.

Securitization's net income of $3.7 million was slightly higher than expected, mostly due to net interest and fee income.

Financing

Financing helps improve SME competitiveness by meeting the financing needs of underserved entrepreneurs. It provides term lending to SMEs at the start-up stage and throughout their business journey. BDC also collaborates with other financial institutions to increase credit availability in the market through co-lending and syndicated loans.

Since fiscal 2015, BDC has deployed an initiative to increase its reach, especially in Western Canada and Ontario, where its geographic presence should be better aligned with market realities. In fiscal 2017, BDC also introduced a new brand identity and continued to invest in its overall visibility through advertising, including a significant online presence, to continue raising awareness of its offering, therefore better responding to SME financing needs.

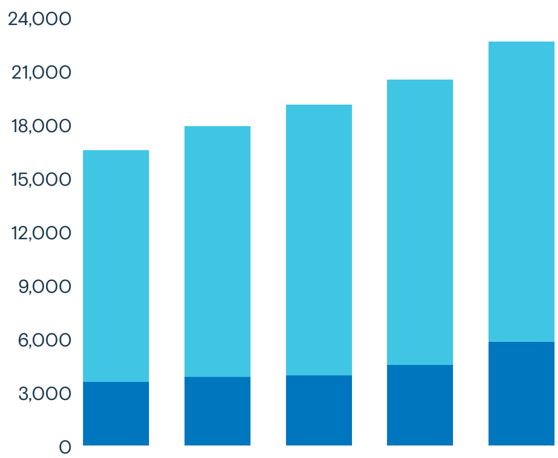
With its mobility strategy, BDC is enabling client-facing employees to work anywhere, at any time and from any device. This has allowed for much better connectivity with clients and made it easier for SMEs to do business with BDC.

In fiscal 2016, BDC earmarked $700.0 million in term lending over three years for majority women-owned businesses; since then, it has authorized $620.5 million in loans. BDC also continued to support entrepreneurs affected by the fall in crude oil prices by providing an additional $350.0 million in financing to the $500 million already committed in November 2015. The focus of this extension is on allocating funding in the industry to help companies diversify and seize current opportunities in Canada and abroad. As at March 31, 2017, Financing had authorized close to 2,300 loans for more than half a billion dollars.

Financing portfolio

Financing's loan portfolio, before allowance for credit losses, rose by 10.5% from $20.3 billion a year ago to $22.4 billion as at March 31, 2017, mainly due to an increased level of activities. The closing portfolio comprised $21.7 billion in performing loans and $0.7 billion in impaired loans. As at March 31, 2017, 74.4% of the portfolio was composed of floating-rate loans, slightly lower than the fiscal 2016 level of 78.0%.

Financing portfolio
as at March 31 ($ in millions)



	2013	2014	2015	2016	**2017**
Fixed-rate portfolio	3,523	3,795	3,886	4,474	**5,739**
Floating-rate portfolio	12,887	13,954	15,058	15,849	**16,710**
Total Financing portfolio	16,410	17,749	18,944	20,323	**22,449**

Net interest and fee income

Net interest and fee income reflects interest income and fees less interest expense on borrowings. Net interest and fee income reached $1,036.5 million in fiscal 2017, compared to $969.9 million in fiscal 2016. The increase of $66.6 million was mainly the result of strong growth in the portfolio, partially offset by lower margins. The net interest and fee income margin, the ratio of net interest and fee income over the average loan portfolio, fell slightly compared to fiscal 2016, reflecting interest rate market dynamics.

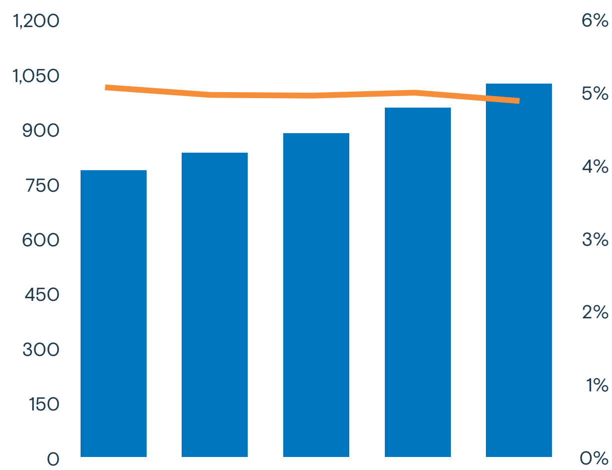
Financing results
for the years ended March 31 ($ in millions)

	2017	2016
Net interest and fee income	**1,036.5**	969.9
Provision for credit losses	**(179.5)**	(160.9)
Net gains (losses) on other financial instruments	**1.3**	4.3
Income before operating and administrative expenses	**858.3**	813.3
Operating and administrative expenses	**411.3**	371.5
Net income from Financing	**447.0**	441.8

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

	2017	2016
Net interest and fee income	**4.8%**	4.9%
Provision for credit losses	**(0.8%)**	(0.8%)
Net gains (losses) on other financial instruments	**0.0%**	0.0%
Income before operating and administrative expenses	**4.0%**	4.1%
Operating and administrative expenses	**1.9%**	1.9%
Net income from Financing	**2.1%**	2.2%

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



	2013	2014	2015	2016	**2017**
Net interest and fee income	796.7	845.2	900.0	969.9	**1,036.5**
As a % of average loan portfolio	5.01%	4.91%	4.90%	4.94%	**4.83%**

Provision for credit losses

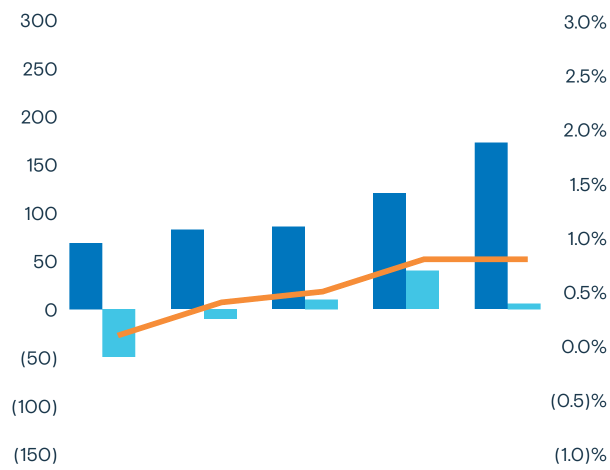
The provision for credit losses is the amount charged to income to bring the total allowance for credit losses, including individual and collective allowances, to a level that represents management's best estimate of losses incurred in the loan portfolio at the statement of financial position date. In fiscal 2017, Financing recorded a provision for credit losses of $179.5 million, of which $173.5 million was related to the provision for individual credit losses on impaired loans and $6.0 million to the provision for collective credit losses.

A significant factor influencing the individual allowance is the level of loans that were downgraded from performing to impaired status. When financial conditions deteriorate, more loans default. When they default, we classify them as impaired and record an amount equal to the net exposure as an individual allowance. The rate of these downgrades increased to 2.8% of the performing opening portfolio in fiscal 2017, compared to 2.3% for fiscal 2016, whereas the provision for individual credit losses increased to 0.8% of the average portfolio in fiscal 2017, compared to 0.6% last year. The increase in the provision for individual credit losses reflected the fall in crude oil prices, which mainly affected the Prairies. This region alone contributed to 92% of the total increase in the provision in fiscal 2017. A provision for collective allowance of $6.0 million was recorded in fiscal 2017, compared to $40.0 million in fiscal 2016. Last year's higher collective provision reflected the uncertainty related to declining oil prices, which led to an increase in impaired accounts in fiscal 2017.

BDC closely manages the $718.3 million in impaired loans, which increased by $163.6 million in fiscal 2017. Impaired loans represented 3.2% of the total portfolio on March 31, 2017, up from 2.7% on March 31, 2016.

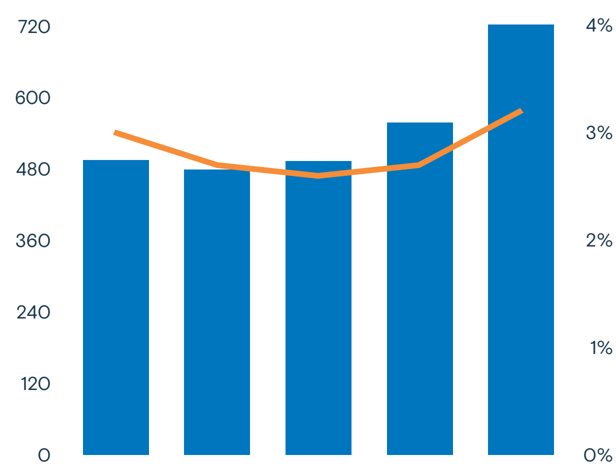
BDC maintains the allowance for credit losses at a level judged adequate to absorb the credit losses in the portfolio. This allowance comprises the individual allowance and the collective allowance. Management determines the individual allowance by identifying and determining losses related to individual impaired loans. It determines the collective allowance by assessing impairments in the existing performing loan portfolio that are not yet identified.

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



	2013	2014	2015	2016	**2017**
Individual	69.1	82.9	85.9	120.9	**173.5**
Collective	(50.0)	(10.0)	10.0	40.0	**6.0**
Provision for credit losses on loans	19.1	72.9	95.9	160.9	**179.5**
As a % of average loan portfolio	0.1%	0.4%	0.5%	0.8%	**0.8%**

Impaired portfolio
as at March 31 ($ in millions)

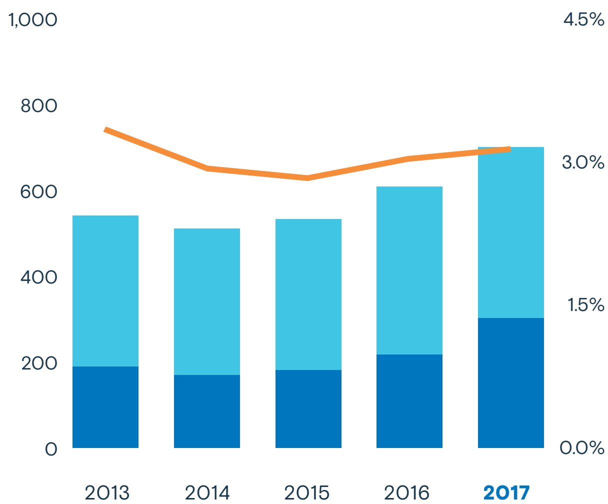


	2013	2014	2015	2016	**2017**
Impaired portfolio	491.8	475.9	490.6	554.7	**718.3**
Impaired portfolio as a % of total loan portfolio	3.0%	2.7%	2.6%	2.7%	**3.2%**

Both the individual and collective allowances for credit losses increased, to a total of $696.9 million on March 31, 2017, compared to $605.7 million in fiscal 2016. The total allowance represented 3.1% of the total loans outstanding, slightly higher than the 3.0% recorded last year.

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

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



	2013	2014	2015	2016	2017
Individual allowance	188.3	168.3	179.9	215.7	**300.9**
Collective allowance	350.0	340.0	350.0	390.0	**396.0**
Total allowance	538.3	508.3	529.9	605.7	**696.9**
Total allowance as a % of loan portfolio	3.3%	2.9%	2.8%	3.0%	**3.1%**

Net gains or losses on other financial instruments

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

During fiscal 2017, Financing recorded net gains on other financial instruments of $1.3 million, which included net realized gains of $2.4 million and net unrealized losses of $1.1 million. This compared with net gains on other financial instruments of $4.3 million in fiscal 2016, comprising net realized gains of $1.0 million and net unrealized gains of $3.3 million.

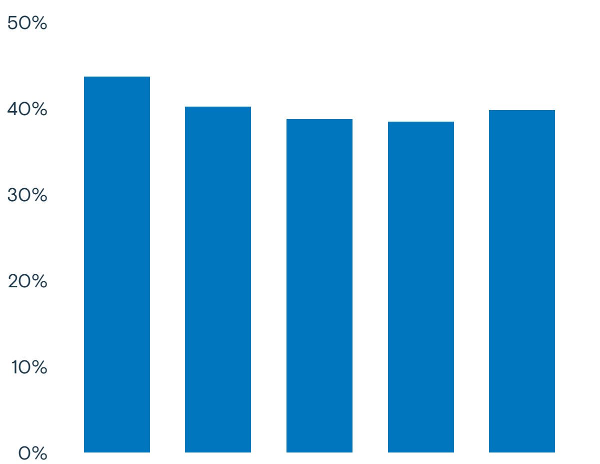
Operating and administrative expenses

Operating and administrative expenses were $411.3 million in fiscal 2017, $39.8 million higher than the $371.5 million recorded last year. This increase was mainly due to costs associated with higher staff levels aimed at increasing BDC's presence across Canada to help more entrepreneurs, and to the deployment of BDC's new brand identity. However, as a percentage of the average portfolio, operating and administrative expenses were 1.9%, same level as in fiscal 2016. BDC is also leveraging its online presence through the virtual business centre and is investing in enhanced mobile capabilities to make it simpler and faster for clients to secure financing.

Operational efficiency

Over the years, BDC has made a concerted effort to achieve efficiencies while fulfilling its role as a development bank and implementing government priorities. BDC is carefully managing operating expenses, identifying and gaining efficiencies, and improving its efficiency ratio—that is, the expenses incurred to earn each dollar of revenue. (The lower the ratio, the better.) As a result, the financing efficiency ratio has improved from 43.5% in fiscal 2013 to 39.6% in fiscal 2017. However, it rose compared to the 38.3% recorded in fiscal 2016, as a result of lower margins in the financing portfolio and investments in initiatives such as efforts to improve reach and visibility, as well as to improve client experience through better processes and technology. These investments are expected to bring efficiency gains and improve the Financing efficiency ratio in the coming years.

Financing efficiency ratio[1]
for the years ended March 31



2013	2014	2015	2016	**2017**
43.5%	40.0%	38.6%	38.3%	**39.6%**

(1) A lower ratio indicates improved efficiency.

For the definition of efficiency ratio, refer to the Glossary on page 132.

Performance against objectives

Financing's net income was $25.2 million higher than planned, mainly due to a lower-than-anticipated provision for credit losses.

Net interest, fee and other income was $5.5 million higher than the $1,031 million anticipated, due mainly to higher average loans outstanding throughout the year, partially offset by the lower margin achieved. Total operating and administrative expenses of $411.3 million were comparable to the corporate plan objective. As expected, BDC continued to invest in increasing its reach and visibility by opening new business centres and by deploying its new brand identity.

Financing's closing portfolio at the end of fiscal 2017, net of allowance for credit losses, stood at $21.8 billion, which is 4.2% higher than the corporate plan objective as a result of higher-than-anticipated activity levels. Total acceptances for the year were $1.4 billion higher than the corporate plan objective of $5.2 billion, as BDC's planned investments contributed successfully to better respond to market demands.

Growth & Transition Capital

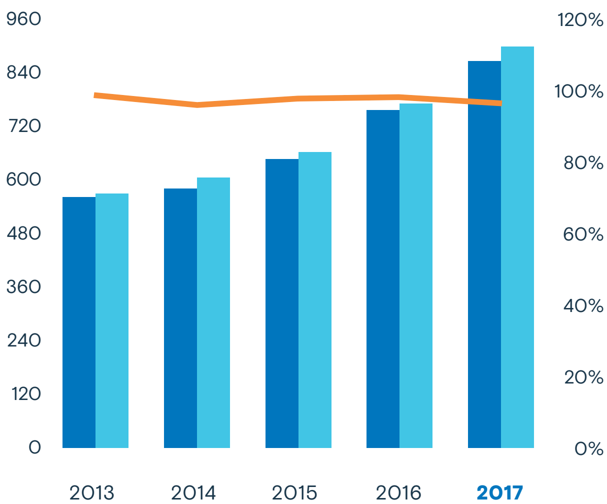
Growth & Transition Capital caters to growing businesses, especially high-growth firms, with strong management but, often, with limited tangible assets to offer as collateral. BDC offers higher risk solutions (cash flow, mezzanine, quasi-equity) to allow entrepreneurs to execute their growth and succession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

Subordinate financing investment portfolio

BDC's subordinate financing investment portfolio increased by 14.5%, from $751.4 million in fiscal 2016 to $860.4 million in fiscal 2017, as demand remained strong in this underserved market segment. The average loan size increased to $1.8 million in fiscal 2017 from $1.5 million in fiscal 2016.

The fair value of the portfolio as a percentage of cost stood at 96.4%, slightly lower than last year, mainly as a result of higher fair value depreciation in the oil and gas sector.

Subordinate financing investment portfolio
as at March 31 ($ in millions)



	2013	2014	2015	2016	**2017**
Fair value	557.8	576.7	642.8	751.4	**860.4**
Cost	566.0	601.4	658.0	766.0	**892.9**
Fair value as % of cost	98.6%	95.9%	97.7%	98.1%	**96.4%**

Net income from Growth & Transition Capital

Growth & Transition Capital recorded net income of $44.6 million for the year, $9.1 million lower than in fiscal 2016. Last year's results were very strong compared to historical trends. The decrease was due mainly to a higher net change in unrealized depreciation of investments. Net income included $0.2 million attributable to non-controlling interests in fiscal 2017, compared to $4.5 million last year. The decrease in non-controlling interests was due to lower unrealized appreciation of investments recognized in AlterInvest II Fund L.P. and to a lower portfolio.

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

	2017	2016
Net revenue on investments	**98.7**	85.4
Net change in unrealized appreciation (depreciation) of investments	**(17.8)**	0.5
Income before operating and administrative expenses	**80.9**	85.9
Operating and administrative expenses	**36.3**	32.2
Net income from Growth & Transition Capital	**44.6**	53.7
Net income attributable to:		
BDC's shareholder	**44.4**	49.2
Non-controlling interests	**0.2**	4.5
Net income from Growth & Transition Capital	**44.6**	53.7

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

	2017	2016
Net revenue on investments	**12.1%**	12.5%
Net change in unrealized appreciation (depreciation) of investments	**(2.2%)**	0.1%
Income before operating and administrative expenses	**9.9%**	12.6%
Operating and administrative expenses	**4.5%**	4.7%
Net income from Growth & Transition Capital	**5.4%**	7.9%
Net income attributable to:		
BDC's shareholder	**5.4%**	7.2%
Non-controlling interests	**0.0%**	0.7%
Net income from Growth & Transition Capital	**5.4%**	7.9%

Net revenue on investments, which comprised net interest income, net realized gains on investments, and fee and other income, reached $98.7 million, $13.3 million higher than in fiscal 2016. The increase was mainly due to higher net interest income as a result of portfolio growth in fiscal 2017. Refer to Note 25—*Segmented Information* for more details.

In fiscal 2017, Growth & Transition Capital recorded a net change in unrealized depreciation of investments of $17.8 million, compared to a $0.5 million net change in unrealized appreciation recorded last year. The oil and gas sector contributed to the higher unrealized depreciation of investments in fiscal 2017. The net change in unrealized appreciation (depreciation) of investments is detailed below.

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

	2017	2016
Net fair value appreciation (depreciation)	**(13.7)**	1.1
Reversal of net fair value depreciation (appreciation) due to realized income and write-offs	**(4.1)**	(0.6)
Net change in unrealized appreciation (depreciation) of investments	**(17.8)**	0.5

Operating and administrative expenses increased by $4.1 million from last year as a result of higher staff levels required to fully support the growth and transition plans of companies across Canada. However, as a percentage of the average portfolio, operating and administrative expenses decreased compared to fiscal 2016.

Performance against objectives

Net income from Growth & Transition Capital of $44.6 million in fiscal 2017 was higher than the corporate plan objective of $36.2 million. This difference was mainly due to lower-than-anticipated unrealized depreciation of investments.

As expected, BDC's initiative to increase reach and visibility resulted in higher-than-anticipated level of activity. Acceptances reached $320.5 million for the year, higher than the corporate plan objective of $270 million.

Growth & Transition Capital's main goal this year was to accelerate the deployment of its partnership equity solution to further address the needs of entrepreneurs for higher-risk growth capital. As expected, increase in acceptances for equity and quasi-equity solutions were in line with Fiscal 2017 priorities.

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, commercialize innovation, and build the skills of VC fund managers. It backs approximately 700 companies through direct investments in new businesses and indirect investments in partnering accelerators and VC funds. VC's strategy to make Canadian venture capital a financially viable and attractive asset class for private sector investors has helped propel the market. Since 2010, the number of VC deals in Canada has increased by 38%, with total dollars invested increasing by 97%.

Direct investment

With its direct VC investing strategy, BDC manages three investment funds. They operate on the same principles as private sector funds, in the areas of information technologies (IT), industrial/clean/energy technology (ICE) and health care. In response to market demand, BDC allocated $150 million to create a second IT fund in fiscal 2016 and $135 million to create a second ICE fund in fiscal 2017.

Through Strategic Initiatives and Partnerships (SIP), BDC develops innovative initiatives to reinforce the early-stage innovation ecosystem. Also through SIP, it addresses the funding gap by making initial seed investments in promising graduates of its accelerator partners through the Venture Acceleration program.

In fiscal 2017, BDC announced that it was increasing its support for women-led technology firms by creating a new direct investing initiative, allocating $50 million in capital to invest in both existing and new clients, as well as graduates of BDC's partner accelerators through SIP.

Indirect investment

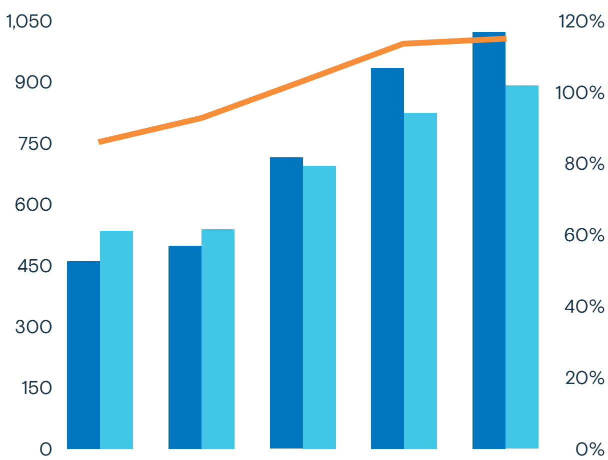
BDC's indirect investment approach is focused on building and supporting at-scale, world-class Canadian venture capital funds. This is being done with larger commitments by BDC to private sector funds that have a clear sector focus and recognized expertise.

Venture Capital portfolio

The fair value of the portfolio increased from $928.0 million in fiscal 2016 to $1,015.7 million this year. The portfolio is composed of $604.1 million in direct investments and $411.6 million in investments in 64 funds.

The fair value of the total portfolio as a percentage of cost was 114.8% as at March 31, 2017, slightly higher than the 113.4% last year. Fiscal 2017 fair value as a percentage of cost was 105.5% for the direct investments portfolio and 131.7% for the funds.

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

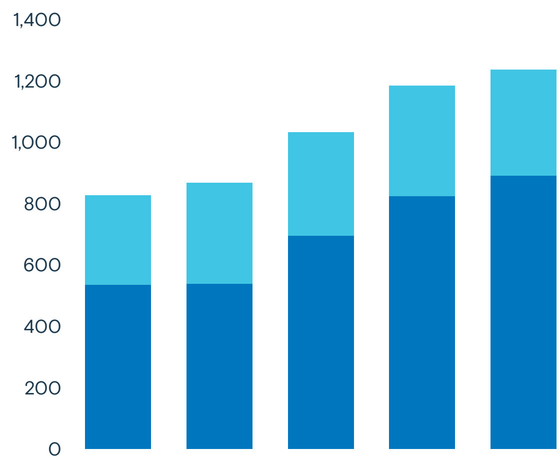


	2013	2014	2015	2016	**2017**
Fair value	456.7	495.1	709.6	928.0	**1,015.7**
Portfolio (cost)	531.1	534.6	689.9	818.3	**884.9**
Fair value as % of cost	86.0%	92.6%	102.9%	113.4%	**114.8%**

The total Venture Capital commitment to investees, which represents the portfolio outstanding at cost plus undisbursed commitments, amounted to $1,230.0 million as at March 31, 2017. This represents $584.5 million committed to direct investments and $645.5 million to private sector investment funds, for an increase of 4.4% compared to last year.

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

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



	2013	2014	2015	2016	**2017**
Portfolio (cost)	531.1	534.6	689.9	818.3	**884.9**
Undisbursed commitment	290.8	327.3	337.1	360.0	**345.1**
Total commitment to Venture Capital investees	821.9	861.9	1,027.0	1,178.3	**1,230.0**

Net income from Venture Capital

Venture Capital recorded net income of $5.2 million, compared to $67.4 million net income last year, marking a third consecutive year with positive results. Fiscal 2016 net income was favourably affected by a significant fair value appreciation following an external round of financing for one of our investees.

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

	2017	2016
Net revenue (loss) on investments	**9.3**	(2.5)
Net change in unrealized appreciation (depreciation) of investments	**10.2**	81.6
Net unrealized foreign exchange gains (losses) on investments	**10.9**	8.4
Net gains (losses) on other financial instruments	**(0.1)**	0.1
Income before operating and administrative expenses	**30.3**	87.6
Operating and administrative expenses	**25.1**	20.2
Net income from Venture Capital	**5.2**	67.4
Net income attributable to:		
BDC's shareholder	**6.6**	69.6
Non-controlling interests	**(1.4)**	(2.2)
Net income from Venture Capital	**5.2**	67.4

The net revenue on investments, which comprised net realized gain on investments and fee and other income, was $9.3 million, higher than the $2.5 million loss recorded in fiscal 2016. Venture Capital recorded lower write-offs and slightly lower realized gains in fiscal 2017. Proceeds received from divestiture of investments were strong at $127.7 million, compared to $100.8 million in fiscal 2016. The net realized gains on investments had minimal impact on results, as the changes in fair value on these investments made in prior periods were reversed at the time of exit.

BDC recorded a net change in unrealized appreciation of investments of $10.2 million (compared to a net change in unrealized appreciation of investments of $81.6 million last year).

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

	2017	2016
Net fair value appreciation (depreciation)	**(3.3)**	67.8
Reversal of fair value depreciation (appreciation) on divested investments and write-offs	**13.5**	13.8
Net change in unrealized appreciation (depreciation) of investments	**10.2**	81.6

Direct investments recorded fair value depreciation of $18.0 million and indirect investments recorded fair value appreciation of $14.7 million in fiscal 2017 for a total net fair value depreciation of $3.3 million. Fiscal 2016 net fair value appreciation of $67.8 million was the result of an external round of financing for one of our direct investees.

Net unrealized foreign exchange gains of $10.9 million on investments were due to foreign exchange fluctuations on 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 $25.1 million, higher than the $20.2 million recorded last year, mainly as a result of higher salaries to better support Venture Capital's ecosystem and portfolio growth.

Venture Capital's net loss attributable to non-controlling interests was $1.4 million for the year, $0.8 million lower than last year.

Performance against objectives

Venture Capital's net income of $5.2 million was higher than the $19.8 million net loss anticipated in the Corporate Plan. This was largely due to lower-than-anticipated net fair value depreciation on investments and to unrealized foreign exchange gains on investments. Net loss attributable to non-controlling interests of $1.4 million was $1.1 million lower than anticipated.

Advisory Services

At the beginning of fiscal 2017, BDC Advantage was renamed Advisory Services, to better reflect the full range of non-financial services offered to entrepreneurs. With its suite of high-quality advisory solutions, offerings for high-impact firms through the Growth Driver program, online educative content and solutions to help SMEs globalize, BDC invests in helping Canadian businesses become more competitive by taking on a significant portion of the costs associated with these activities to ensure that firms can reap maximum benefits.

Advisory Services continues to deploy the Growth Driver program (previously known as the High-Impact Firm initiative) to serve companies that have a significant impact on the economy. The program, delivered by highly experienced executive advisors supported by a team of associates and analysts, focuses on helping entrepreneurs and management teams develop and execute growth plans to ensure that high-impact firms reach their full potential.

Net loss from Advisory Services

The offering under Advisory Services is an ongoing investment in entrepreneurs. A net loss of $45.8 million was recorded in fiscal 2017, compared to a net loss of $31.6 million recorded in fiscal 2016. Advisory Services increased its reach in fiscal 2017, which is reflected in the 22% increase in revenues, which rose to $20.4 million from the $16.7 million recorded last year, and by more than 1,700 consulting mandates delivered. Operating and administrative expenses of $66.2 million were $17.9 million higher than those recorded in fiscal 2016, mainly due to increased staff levels, as BDC continued to allocate resources and build a team of experts and advisors to offer a range of non-financial support to entrepreneurs, including high-impact firms.

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

	2017	2016
Revenue	**20.4**	16.7
Operating and administrative expenses	**66.2**	48.3
Net loss from Advisory Services	**(45.8)**	(31.6)

Performance against objectives

For fiscal 2017, the net loss of $45.8 million from Advisory Services was lower than the corporate plan estimate of $54.4 million. Revenues were $20.4 million, in line with the corporate plan objective, whereas operating and administrative expenses were lower than anticipated.

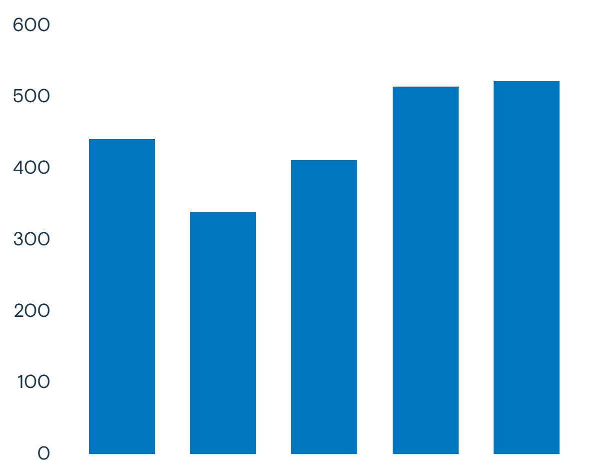
Securitization

BDC is maintaining its role in the securitization market, where SMEs access financing for the vehicles and equipment they need to improve productivity. Through the Funding Platform for Independent Lenders (F-PIL), BDC uses securitization techniques to fund creditworthy finance companies in the auto and equipment space through risk-sharing arrangements. With its securitization lending platform, BDC targets smaller and emerging independent finance companies to help them grow in size and sophistication, thereby increasing credit available to SMEs.

Securitization portfolio

As at March 31, 2017, total asset-backed securities (ABS) stood at $518.1 million, a slight increase compared to $509.8 million in fiscal 2016.

Asset-backed securities portfolio
as at March 31 ($ in millions)



2013	2014	2015	2016	**2017**
437	336	408	510	**518**

Net income from Securitization

Securitization recorded net income of $3.7 million for the year, $0.6 million higher than last year, mainly due to higher net interest income as a result of a higher average portfolio. Operating and administrative expenses amounted to $2.6 million in fiscal 2017, slightly higher than last year.

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

	2017	2016
Net interest and fee income	**6.3**	5.4
Operating and administrative expenses	**2.6**	2.3
Net income from Securitization	**3.7**	3.1

Performance against objectives

Securitization's net income of $3.7 million was $0.9 million higher than expected, mostly due to higher net interest and fee income and lower operating and administrative expenses.

Venture Capital Action Plan

BDC is playing a leadership role in strengthening the Canadian venture capital (VC) ecosystem. Recognizing the importance of VC to Canada's economic prosperity, the government asked BDC to manage the Venture Capital Action Plan (VCAP) to help increase available capital for promising innovative Canadian start-ups and create a vibrant and sustainable VC ecosystem in Canada led by the private sector.

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 $900 million in private sector capital and $113 million from provincial governments, bringing the total venture capital raised under VCAP to $1.35 billion. The Canadian VC market has evolved in that VCAP has resulted in the scaling of several larger fund managers that are able to attract additional fund investors with less BDC involvement.

Venture Capital Action Plan portfolio

As at March 31, 2017, the total portfolio stood at $301.5 million, compared to $137.7 million last year. The increase was mainly due to disbursements of $157.8 million during fiscal 2017.

Net income from Venture Capital Action Plan

VCAP recorded net income of $10.1 million, mostly as a result of a net change in unrealized appreciation of investments of $10.6 million related to the increase in fair value of the underlying funds. This is the second year in a row that VCAP has shown positive results. Operating and administrative expenses were $0.6 million, lower than last year.

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

	2017	2016
Net revenue on investments	**0.1**	0.3
Net change in unrealized appreciation (depreciation) of investments	**10.6**	3.9
Income before operating and administrative expenses	**10.7**	4.2
Operating and administrative expenses	**0.6**	0.9
Net income from Venture Capital Action Plan	**10.1**	3.3

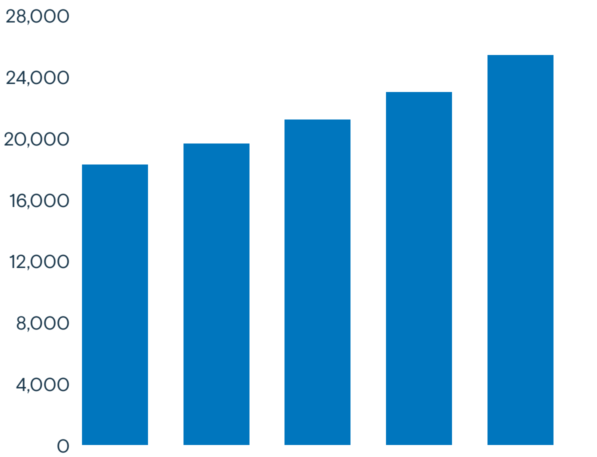
Performance against objectives

Net income of $10.1 million was $29.0 million better than anticipated, mostly due to a higher-than-anticipated net change in unrealized appreciation of investments.

Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows

Total assets of $25.3 billion increased by $2.4 billion from a year ago, largely due to the $2.0 billion increase in our loans portfolio, combined with a $109.0 million increase in the subordinate financing investment portfolio, a $251.6 million increase in the VC and VCAP investment portfolios, and a $8.3 million increase in ABS.

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



2013	2014	2015	2016	**2017**
18,184	19,570	21,129	22,906	**25,317**

The ABS portfolio stood at $518.1 million as at March 31, 2017, compared to $509.8 million as at March 31, 2016. The growth of the portfolio was mainly due to an increase in securities purchased under the F-PIL program.

At $21.7 billion ($22.4 billion in gross portfolio net of a $0.7 billion allowance for credit losses), the loan portfolio represented BDC's largest asset. The gross loan portfolio has grown by 10.5% since March 31, 2016. 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.

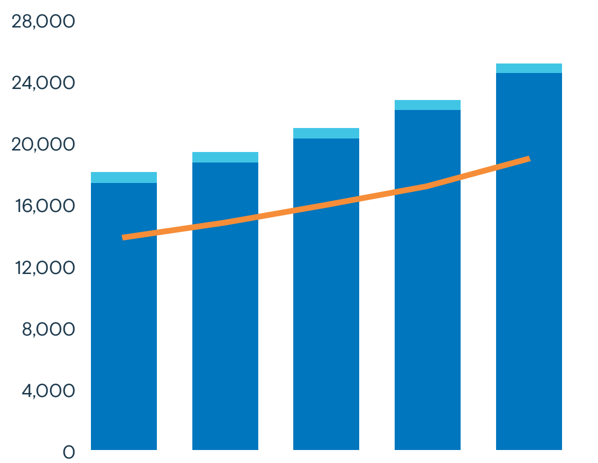
As for BDC's investment portfolios, the subordinate financing investment portfolio stood at $860.4 million, representing growth of 14.5% since March 31, 2016. The VC portfolio was $1,015.7 million as at March 31, 2017, compared to $928.0 million as at March 31, 2016. The VCAP portfolio stood at $301.5 million as at March 31, 2017, compared to $137.7 million as at March 31, 2016.

Derivative assets of $21.3 million and derivative liabilities of $1.8 million reflect the fair value of derivative financial instruments as at March 31, 2017. Net derivative fair value decreased by $28.1 million compared to the value as at March 31, 2016, primarily due to maturities and redemptions, and a decrease in fair value. BDC acquires derivative financial instruments to manage exposures to interest, currency and other market risks. BDC does not hold derivatives for speculative or trading purposes.

As at March 31, 2017, BDC recorded a net defined benefit asset of $121.1 million related to the registered pension plan, and a net defined benefit liability of $231.5 million for the other plans, for a total net defined benefit liability of $110.4 million. This represents a decrease of $53.6 million compared to the net defined benefit liability as at March 31, 2016, mostly as a result of remeasurement gains recorded during the year. For further information, refer to Note 19—*Net Defined Benefit Asset or Liability* to the Consolidated Financial Statements.

BDC holds cash and cash equivalents in accordance with its treasury risk policy. The Bank's liquidities, which ensure funds are available to meet BDC's cash outflows, totalled $649.2 million as at March 31, 2017, compared to $680.1 million as at March 31, 2016.

Borrowings
as at March 31 ($ in millions)



	2013	2014	2015	2016	**2017**
Liquid assets	702	677	667	680	**649**
Portfolios[1]	17,324	18,654	20,222	22,045	**24,448**
Borrowings	13,868	14,832	15,984	17,198	**18,977**

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

For the year ended March 31, 2017, cash flow used by investing activities amounted to $360.7 million. Financing activities provided $1,850.1 million in cash flow, as long-term notes were repaid for $164.3 million and short-term notes increased by a net amount of $1,961.2 million. BDC also issued common shares totalling $125.0 million for the VCAP initiative. Operating activities used $1,520.3 million in cash flows. For further information, refer to the Consolidated Statement of Cash Flows on page 59.

As at March 31, 2017, BDC funded its portfolios and liquidities with borrowings of $19.0 billion and total equity of $5.9 billion. Borrowings comprised $18.8 billion in short-term notes and $0.2 billion in long-term notes.

Net Defined Benefit Asset or Liability

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

BDC's employer contributions to the registered pension plan totalled $28.4 million in fiscal 2017, compared to $44.7 million in fiscal 2016. BDC's best estimate of the contributions to be paid for fiscal 2018 is $32.4 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.

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 obligations. As of March 31, 2017, the funded status of the registered pension plan was in a surplus position on a going-concern basis and in a deficit position on a solvency basis. BDC will continue to contribute to the pension fund in future years to manage the funded status, as prescribed by the applicable federal pension legislation.

Since fiscal 2006, BDC has funded the supplemental plans on a voluntary basis. Other employee future benefits plans are unfunded.

Capital Management

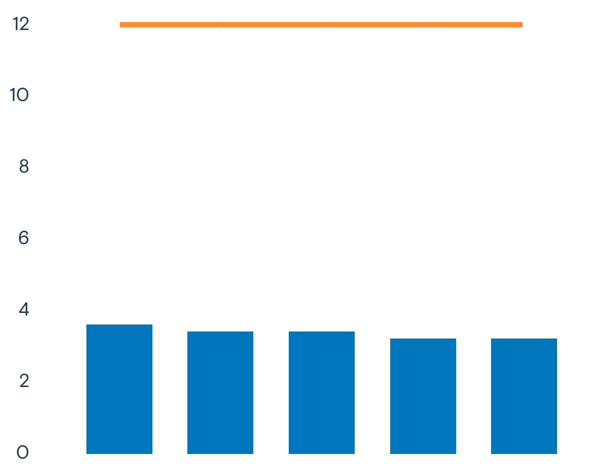
Statutory limitations

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, 2017, was 3.2:1, unchanged from March 31, 2016.

In addition, the paid-in capital, the contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments) must not at any time exceed $3.0 billion. As at March 31, 2017, these amounts totalled $2.4 billion, compared to $2.3 billion as at March 31, 2016.

During the year, a $125 million capital injection was received from the shareholder for the deployment of VCAP.

Debt-to-equity ratio
as at March 31



	2013	2014	2015	2016	**2017**
Actual	3.6	3.4	3.4	3.2	**3.2**
Statutory limit	12.0	12.0	12.0	12.0	**12.0**

Capital adequacy

BDC's capital management framework is based on its Internal Capital Adequacy Assessment Process (ICAAP), which is derived from the Office of the Superintendent of Financial Institutions' guidelines and the new Capital and Dividend Policy Framework for Financial Crown Corporations being implemented by the Minister of Finance, supported by the President of the Treasury Board (TB). BDC's ICAAP excludes VCAP, as BDC manages this program under a specific capital allocation from the shareholder.

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

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

Available capital

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

Capital demand

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

> economic capital, required which quantifies the capital required to cover credit, operational, strategic and market risks;

> stress testing reserve, which serves to absorb the volatility of an economic downturn while maintaining BDC's financial strength

> Venture Capital reserve, which is held to cover any needed follow-up investments

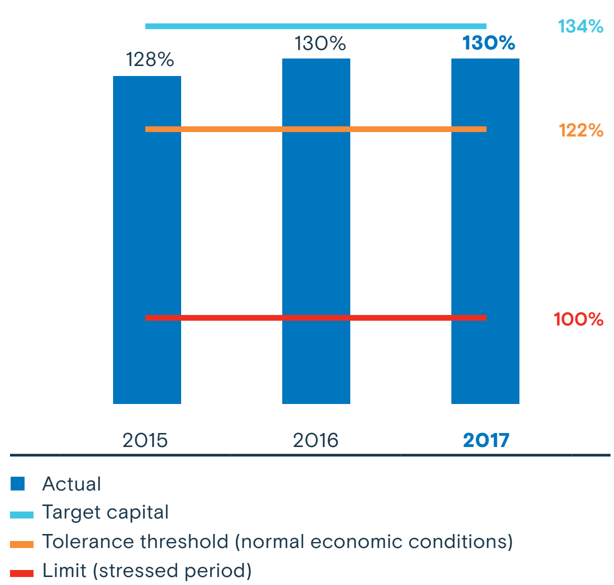
Operating range

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

Internal capital ratio

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

Internal capital ratio(1)
as at March 31



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

BDC's internal capital ratio as at March 31, 2017, was 130%, well within the operating range and slightly below the 134% target.

Dividends
BDC has revised its dividend policy to align with the dividend methodology included in the new Capital and Dividend Policy Framework for Financial Crown Corporations. Effective in fiscal 2017, excess capital, calculated as the difference between available capital and capital demand less operating range, will be declared as dividends and distributed to the shareholder in the following fiscal year, subject to the discretion of the Board of Directors. As at March 31, 2017, BDC's internal capital ratio was below the 134% target, so there was no excess capital to distribute. Therefore no dividend will be declared for fiscal 2017.

Outlook for Fiscal 2018

Growth in Canada is expected to stay around 2%. Low commodity prices, including crude oil prices, are expected to remain under pressure, keeping Canada's growth at moderate levels. Continuing low interest rates and liquidity in the market should facilitate access to credit for Canadian SMEs. Economic activity is expected to be stronger in sectors benefitting from the weakness of the Canadian dollar and from solid U.S. demand, such as manufacturing, tourism and transportation. Given current market dynamics, and in line with its aspiration to be a leader in making Canadian entrepreneurs more competitive, BDC will continue to play its important complementary role.

BDC's consolidated net income is expected to amount to $486 million in fiscal 2018. The increase in net income compared to net income of $464.8 million in fiscal 2017 is mainly due to continued growth in Financing's portfolio and to efficiency gains from investments in processes and technology. Following strong results in recent years, Venture Capital is expected to incur a small loss in fiscal 2018. Growth & Transition Capital's net income is expected to increase in fiscal 2018 compared to fiscal 2017. Given the capital required to support the anticipated growth of our portfolios, BDC is forecasting no excess capital available for dividends in fiscal 2018.

Financing

In past years, BDC Financing and Securitization were presented as separate segments. Starting in fiscal 2018, BDC will no longer report on Securitization separately and asset-backed securities (ABS) will be presented as a product of BDC Financing.

Financing will continue to assist small businesses, including those that have difficulty accessing financing due to their location, sector or demographic. To that end, BDC will continue to increase its presence across Canada; increase the ease, speed and convenience for clients of doing business with BDC; support SMEs affected by the drop in the price of oil; and develop a more targeted approach to providing advisory services.

BDC expects net financing acceptances to remain strong at $6.7 billion in fiscal 2018, stable compared to fiscal 2017. The gross portfolio is expected to grow by 9.3% to $25.3 billion in fiscal 2018.

Financing's net income is expected to increase to $518 million in fiscal 2018. Provisions for credit losses on loans are expected to amount to $176 million, representing 0.7% of the average outstanding financing portfolio, down from the 0.8% recorded in fiscal 2017. Financing's operating expenses as a percentage of the average portfolio outstanding are expected to slightly decrease to 1.8%, as BDC will continue to profit from efficiency gains.

Growth & Transition Capital

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

Growth & Transition Capital anticipates demand for its products to remain strong. The volume of acceptances is expected to reach $340 million in fiscal 2018, up from $320.5 million in fiscal 2017. The fair value of the portfolio is expected to grow from $860.4 million in fiscal 2017 to $991 million in fiscal 2018. Operating expenses as a percentage of the average outstanding portfolio at cost are expected to decrease from 4.5% to 4.0% in fiscal 2018, reflecting improved efficiencies.

Growth & Transition Capital is expected to remain an important contributor to BDC's financial sustainability, with net income forecasted to increase from $44.6 million in fiscal 2017 to $53 million in fiscal 2018.

Venture Capital

To support innovative Canadian companies and create the conditions for success in the VC ecosystem, Venture Capital estimates that, in fiscal 2018, it will authorize $215 million in investments, including $115 million in direct investments and $100 million in indirect investments. The fair value of the venture capital portfolio is forecasted to be $1,071 million by March 31, 2018, representing 109% of its cost.

For fiscal 2018, Venture Capital forecasts a net loss of $10 million. Operating and administrative expenses are projected to be $25 million, stable compared to fiscal 2017. Proceeds from investments are forecasted at $120 million for fiscal 2018. VC is a risky asset class that is subject to the volatility of market conditions. This may result in significant variation from plan.

Advisory Services

Advisory Services expects revenues to increase significantly, from $20.4 million in fiscal 2017 to $26 million in fiscal 2018, mainly driven by the increased pace of enrolment in high-impact firms through the Growth Driver program. A net loss of $54 million is forecasted for fiscal 2018, as the offering under Advisory Services is considered an investment in entrepreneurs. 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.

Venture Capital Action Plan (VCAP)

BDC will continue to manage VCAP, a federal initiative to invest $400 million to increase private sector venture capital financing for high-potential, innovative Canadian businesses.

For fiscal 2018, BDC anticipates that $85 million will be disbursed, for a total of $381 million since the inception of the program, and forecasts that it will incur losses of $21 million.

Federal budget 2017

The federal government's Budget 2017 sets out a number of initiatives to help build Canada as a centre of global innovation. BDC will play a leading role in two of these initiatives.

> Through the Venture Capital Catalyst Initiative (VCCI), the government will make $400 million available through BDC over three years to provide late-stage venture capital to support the growth of innovative start-ups. It is estimated that VCCI's success could inject $1.5 billion into Canada's innovation capital market. This program builds on the success of the government's 2013 Venture Capital Action Plan (VCAP), managed by BDC, to increase available early-stage capital for promising innovative start-ups.

> The government will inject nearly $1.4 billion in new financing to help Canada's clean technology firms grow and expand, by providing equity investments, working capital and project financing through EDC and BDC.

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 its mandate, BDC assumes more risks to better support such enterprises. As a consequence, the inherent risk profile of BDC's activities may be on the higher end of the risk spectrum. However, BDC's strong risk management practices, coupled with a strong risk culture, enable the Bank to take appropriate risks while offering relevant services to fulfill its mandate and ensure the organization is financially sustainable.

BDC's approach to risk management is based on establishing a risk governance structure—including organizational design, policies, processes and controls—to effectively manage risk in line with its risk appetite. This structure allows BDC to establish a comprehensive risk management framework to identify, assess, measure, analyze, report and monitor risks. In addition, this framework is designed to ensure that BDC considers risk in all business activities and makes risk management an integral part of day-to-day decision-making, as well as the annual corporate planning process.

Risk is also a defining feature of entrepreneurial activity. As we enter into business relationships with Canada's entrepreneurs, we must identify and manage several kinds of risk—to the greatest degree possible—for entrepreneurs to succeed.

BDC has strong risk management practices that emphasize risk identification, risk management, transparency and accountability.

Our Board of Directors provides essential, independent oversight of BDC's exposure to risk.

BDC's Risk Management Principles

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

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

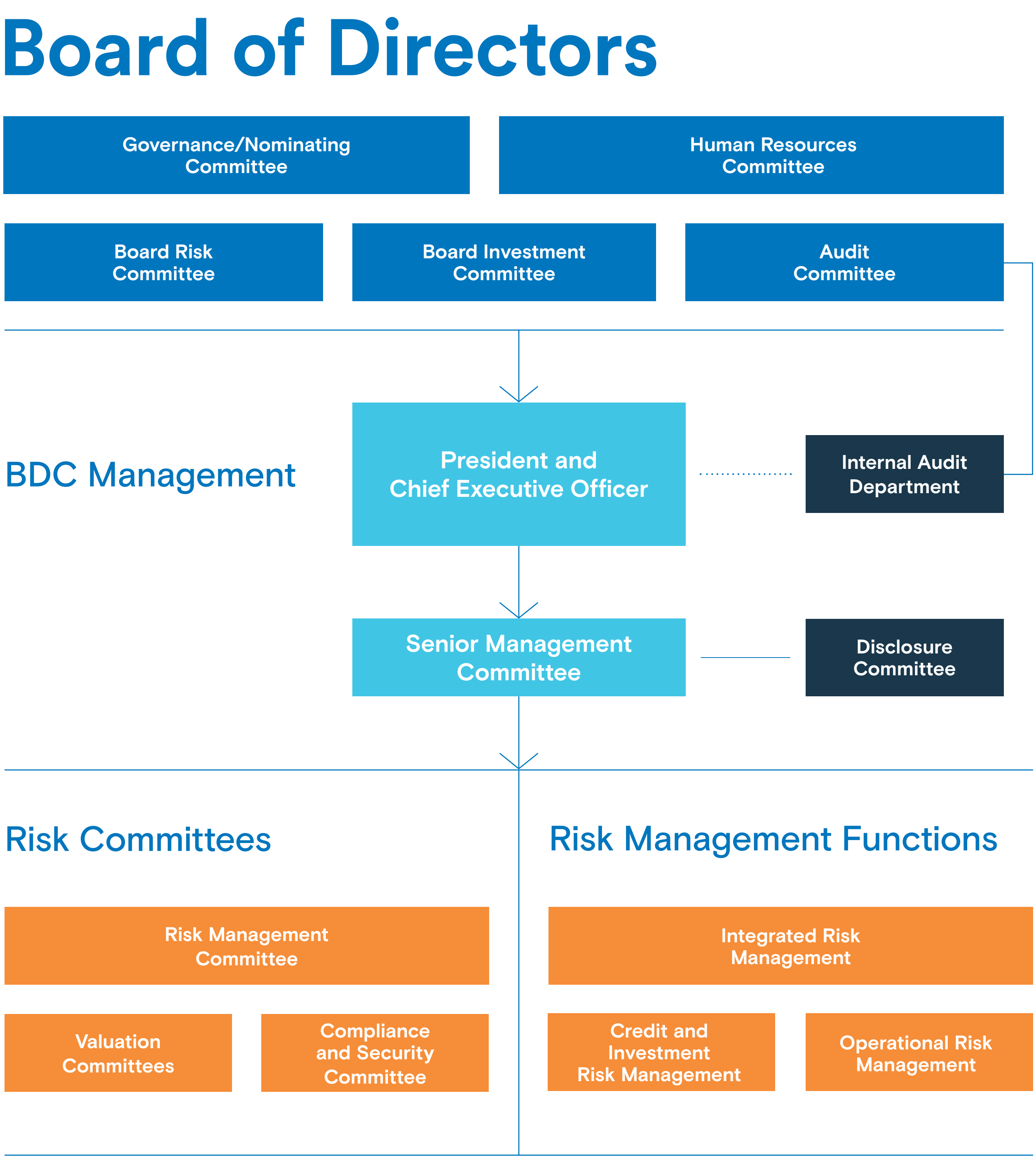
> **Risk integration**: BDC integrates risk management into key business processes, such as strategic, business and budget planning, and lending, investing and advisory services activities.

> **Risk challenge**: BDC fosters an open and transparent culture that actively promotes and encourages risk challenge. The timely escalation of risk issues is fundamental to establishing effective risk dialogue.

> **Independent oversight**: BDC ensures independent oversight of policy compliance, control monitoring and risk reporting.

> **Risk governance**: Policies codify a comprehensive, disciplined and continuous process for identifying, analyzing, accepting and/or mitigating, and monitoring risk within approved risk limits. Oversight committees, executive-level reporting and accountability to an independent Board of Directors ensure the continuous and objective assessment of risk.

The Board of Directors and Its Governance



The Board of Directors

The board and its committees oversee governance and risk management.

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

Although all committees consider risk in their deliberations, as appropriate, three committees—the Board Risk Committee, the Board Investment Committee and the Audit Committee—have specific responsibilities for managing risk. For full details on the board and its committees, please see the Corporate Governance section, starting on page 121.

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

The Board Investment Committee advises the board on how effectively BDC is managing its Venture Capital, Venture Capital Action Plan, and Growth & Transition Capital investment activities. The committee also approves transactions above a certain threshold.

The Audit Committee of the Board of Directors assists the Board to oversee financial risks and objectively assess the financial performance of the Bank and its financial statements, internal controls, financial reporting, accounting standards, legal and regulatory compliance and the independence and quality of its Internal and External Auditors.

BDC Management: Risk Committees and Functions

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

The following committees are key elements of this management governance framework and help ensure the existence of an effective risk management culture and framework at BDC.

The Senior Management Committee comprises the President and CEO; the executive financial, risk and operating officers; and designated senior vice presidents. It ensures that BDC establishes and respects sound risk management strategies and practices. It makes sure that BDC has an integrated vision to address key strategic, financial (credit, market and liquidity) and operational risks. It also, through the Disclosure Committee, oversees BDC's disclosure obligations and practices.

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

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

More specifically, the committee reviews quality and the migration of risk in the loan portfolio, the securitization portfolio, and 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's policy; and receives regular updates on the management of investments related to BDC's pension funds.

The committee focuses on significant risks requiring immediate attention. It reports to the Senior Management Committee and the board on these risks and plans to mitigate them.

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

The Compliance and Security Committee reviews and recommends actions related to security, information management, BDC's policies and corporate directives framework, and compliance with applicable laws.

BDC's risk management functions are integrated risk management, which includes portfolio risk management, treasury risk management and enterprise risk management; credit and investment risk management; and operational risk management. Risk management accountabilities include the following elements:

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

> develop tools to measure, monitor and report on these risks

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

The Internal Audit Department promotes sound risk management practices, which are outlined in BDC's corporate risk management policies. Through its risk-based annual audit plan, it works to ensure that BDC follows these practices.

Risk Management Framework

The risk management framework (RMF) provides a consistent and structured approach to managing the risks inherent in BDC's activities while ensuring that the outcomes of such risk-taking activities are aligned with BDC's strategy and mandate, and conform to its risk appetite statement (RAS).

The RMF outlines the methodology BDC uses to manage risk and reinforce a risk culture across the organization.

BDC's RAS is part of the RMF and ensures that the risks BDC assumes are well understood, controlled and mitigated throughout the organization. BDC's Board of Directors reviews and approves the RAS annually.

BDC's enterprise risk management policy codifies the integrated, enterprise-wide process we use to identify, analyze, accept, mitigate, monitor and report risks. It also defines the roles and responsibilities of board members, management, functional units and employees in implementing the policy. BDC's Board of Directors reviews and approves the policy at least every two years.

Identify

Every quarter, risks at the corporate and functional levels are identified, assessed, documented and classified. They are then presented to the Risk Management Committee, the Senior Management Committee and the board for discussion. Risks related to all significant projects, new products or services, and policy changes are also assessed and discussed.

Analyze and measure

The risks posed by BDC's activities are quantified and qualitatively assessed. BDC updates related tools and models, taking into consideration best practices in the financial services industry. Risks across the organization are measured to ensure 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.

Define risk appetite

BDC's RAS outlines the board and management vision for managing significant risks that BDC is willing to accept or wants to avoid in executing its strategy. BDC communicates the risks via qualitative statements and quantitative measures.

Control and mitigate

BDC sets risk tolerance thresholds to reflect its objectives and strategies. BDC also uses policies and guidelines to codify its governance and risk management culture.

BDC uses the following components and activities to mitigate its risks:

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

> 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

> business quality reviews and internal audits to ensure that BDC is using appropriate and sound risk management practices (every quarter, the Internal Audit Department presents the results of these audits to the Audit Committee)

Monitor, disclose and report

We monitor activities affecting BDC's risk profile, material risk exposures and loss events, and act to align risk exposures with the risk appetite.

Risk process owners monitor, disclose and report risks, with support and oversight from the Risk Management Committee and risk management functions. They prepare monthly or quarterly reports on all significant risks, and they meet through risk management and board committees to report and discuss the risks they manage.

Major Risk Categories

Strategic risk

Strategic risk is the risk that BDC will set inappropriate objectives, will adopt strategies based on inaccurate knowledge of the market, will not allocate sufficient resources to achieve its objectives, or will be unsuccessful in implementing the selected strategies and related operational requirements.

Managing strategic risk

Our dedicated strategy team annually updates our five-year Corporate Plan using a rigorous process. Senior management, the Board of Directors and our shareholder, the Government of Canada, approve the plan. BDC releases a public summary of the plan.

Capital adequacy

Capital adequacy assessment ensures BDC has sufficient capital to cover its risks throughout a complete economic cycle. To assess its capital adequacy, BDC regularly monitors its capital status by comparing its available capital to its capital demand. BDC's approach is aligned with regulatory guidelines and industry standards.

Managing capital adequacy

BDC allocates capital among lines of business, considering their respective capital requirements and assessed risks, to support new and existing corporate activities. It considers capital implications in its strategic and transactional decision-making.

In keeping with industry practices, and the core tenets of sound financial and risk management, BDC also ensures that the level of capital is sufficient for BDC to remain financially sustainable during a recession, using stress-testing analyses. BDC conducts enterprise-wide stress tests on its significant risks and portfolios to determine an appropriate level of capital needed to withstand a sustained economic downturn.

BDC's stress-testing framework seeks to ensure that we are adequately capitalized, given the risks we take, and supports the determination of limits we use to manage risk levels and capital requirements, in line with BDC's risk appetite.

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

Financial risk

BDC is exposed to the following financial risks: credit risk, market risk and liquidity risk. This section should be read in conjunction with Note 23—*Risk Management* to the Consolidated Financial Statements, which details BDC's financial risk management policies and measurements.

Credit risk

Credit risk is the direct or indirect risk of loss related to an investee, or of loss due to default by a borrower, a counterparty with whom BDC does business or an asset issuer.

Managing credit risk

The most important risk for BDC to manage is the credit risk related to its commercial term lending—the largest part of BDC's portfolio.

It is at the business centre level, with the oversight of credit risk adjudication, that we choose to take, mitigate or avoid risk on individual transactions. All of our managers are trained to assess overall credit risk. We base our decisions on our experience with similar clients, and we use policies, corporate directives, guidelines, business rules and risk assessment tools to help us make these decisions.

Our adjudication process includes assigning a borrower rating that reflects our estimate of the probability of default (PD) over the life of the loan. PD estimates are calibrated using a through-the-cycle approach. BDC uses internal risk classification and scoring systems that consider quantitative and qualitative criteria. Such criteria include an assessment of the borrower's financial strength, management quality, financial flexibility and competitive strength. The quantitative model output can be modified in some cases by expert judgement, as prescribed within our credit policies. Our internal risk classification is also used for portfolio risk management, risk limit setting, product pricing and the determination of economic capital.

The table on page 43, based on the annual PD, maps our internal ratings to the ratings used by external ratings agencies.

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

The most common method used to mitigate credit risk at the transaction level is to obtain quality collateral from borrowers. The obtaining of collateral cannot replace a rigorous assessment of a borrower's ability to meet its obligations, but it is an important complement. Collateral is not required in all cases; it depends on the type of loan granted. Please refer to Note 10—*Loans* for further information about principal collateral pledged as security and our level of security coverage.

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

BDC loans portfolio credit risk exposure

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

BDC loans performing portfolio, classified by credit risk exposure
as at March 31, 2017 (as a percentage of gross performing financing portfolio)

	BBB+ to BBB-	BB+	BB to BB-	B+ to B-	CCC+ to CC
	Investment grade	Non-investment grade			Watchlist
	7%	26%	50%	13%	4%

In addition to our higher risk profile portfolios of subordinate financing and venture capital investments, 93% of BDC's loans portfolio is non-investment grade.

Market risk

Market risk is the risk of financial loss that may arise from developments in marketplace dynamics 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 and foreign currency levels. For BDC, market risk also arises from volatile and unpredictable market events affecting the value of venture capital and venture capital action plan investments.

Managing market risk

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

Liquidity risk

Liquidity risk is the risk that BDC could be unable to honour all of its contractual commitments as they become due.

Managing liquidity risk

To avoid business disruptions, BDC invests in highly liquid and high-quality securities with active secondary markets that it can sell to a wide range of counterparties.

Operational risk

Operational risk is the risk of losses from day-to-day errors caused by people, breakdowns in processes or systems, or events beyond our control, such as natural disasters. It includes but is not limited to the following four categories of risk: human capital, reputational, environmental, and legal and regulatory risks.

Operational risk is present in all daily operations at BDC. As such, all of BDC's policies and corporate directives help BDC identify, analyze, mitigate and monitor this risk. They govern the way BDC manages its human capital and processes, safeguards information, administers loans and investments, and carries out its business and corporate activities.

These activities are subject to internal audits. In addition, BDC has implemented an internal control framework based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and an internal control certification process for financial reporting and disclosure.

Human capital risk

BDC's long-term business success depends on its people. Its ability to attract, develop and engage the right people dictates its organizational capacity and enables it to fulfill its mission to help Canadian entrepreneurs succeed.

Managing human capital risk

To achieve optimal performance levels, we continuously assess the workforce factors and human resources practices that could affect performance. We develop strategies and plans to address these issues, including appropriate compensation, and mitigate human capital risks.

Learning and development are powerful means to foster engagement and to prepare employees to achieve their full professional potential. They also ensure BDC has the right qualified people it needs to achieve its strategic objectives and adapt to the dynamic, challenging business environment.

Reputational risk

Reputational risk is the risk that the activities or relationships of BDC or its employees will breach, or appear to breach, its mandate, culture or values, or applicable laws, which could damage BDC's reputation and affect its ability to do business.

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

- meeting the shareholder's expectation that BDC will support entrepreneurship
- carrying out its mandate effectively
- meeting legal and broadly held ethical standards
- refusing to support clients who fail to meet societal expectations of responsible behaviour
- doing business in an environmentally responsible manner

Managing reputational risk

Complying with BDC's RMF principles is the cornerstone of managing reputational risk.

BDC uses its corporate social responsibility framework with strategic purpose and rigour to manage reputational risk.

At a corporate level, BDC tracks the interests of key opinion leaders and stakeholders through dialogue and media monitoring, including social media monitoring.

BDC considers reputational risk when considering potential loans or investments. It screens the potential client and does due diligence for the potential transaction. BDC has well-established procedures to determine whether a client is involved in money laundering or terrorist activities. We also ensure he or she meets requirements related to transparency and disclosure, environmental performance, ethics, and credit eligibility.

Reputational risk management is part of our corporate risk policies and corporate directives, which include the following:

- the Board Code of Conduct
- the BDC Employee Code of Conduct, Ethics and Values (including the policy on the disclosure of wrongdoing, the anti-fraud corporate directive, and the anti-money-laundering and anti-terrorist-financing corporate directive)
- the policy on personal trading for employees and the policy on personal trading for directors
- the charter of client rights
- the policy and corporate directives on authorization limits and levels of authority
- the enterprise risk management policy
- the credit risk management policy
- the policy on the environment
- the eligibility corporate directive, which includes the United Nations Global Compact principles and the OECD Guidelines for Multinational Corporations
- the venture capital policy and corporate directive
- the disclosure policy and corporate directive
- the policy on the handling of referrals and enquiries from members of Parliament, senators, ministerial staff and BDC directors

Technology and cyber risk
Technology and cyber risk is the risk of loss resulting from inadequacies, improper operation, lack of availability or unauthorized access of BDC's technology infrastructure, systems, information or data.

Managing technology and cyber risk
BDC identifies, evaluates, controls, measures, monitors and reports technology risk by establishing an effective application and infrastructure state of control, ensuring cybersecurity defence, and updating systems to ensure currency.

Management recognizes the depth and breadth of cyber risk threats and the exposure they present to organizations around the world. Through a broad-based, management-supported cyber risk program, BDC has implemented a series of activities to strengthen its organizational defence against cyber threats while ensuring employees' awareness and understanding of their responsibilities regarding these initiatives.

Environmental risk
Environmental risk is the risk of damage to the environment or reputational harm caused when BDC's operations or financing fail to meet applicable laws or society's expectations of environmental stewardship. It is often embedded in other risks, such as credit, legal or regulatory risk.

Managing environmental risk
BDC has well-defined processes to identify, assess and mitigate environmental risk throughout the loan and investment lifecycle. These processes minimize direct losses due to environmental impairment of assets under BDC's charge and ensure that BDC deals only with clients who respect environmental regulations and best practices. They also ensure that BDC, in accordance with its responsibilities under the *Canadian Environmental Assessment Act*, does not fund projects that could significantly harm the environment.

Legal and regulatory risk
Legal and regulatory risk is the risk that our failure to comply with laws, regulations, public sector guidelines, industry codes, corporate governance or ethical standards will harm our business activities, earnings, regulatory relationships or reputation. It includes the effectiveness with which we prevent and handle litigation.

Managing legal and regulatory risk
BDC's Legal Affairs and Corporate Secretariat, through a legislative compliance framework, helps BDC employees and management comply with laws and regulations, and manages all litigation involving BDC. It gives the Board of Directors the information it needs to comply with laws and corporate governance, and to oversee BDC's management of its legal and regulatory risk.

In September 2015, the Office of the Superintendent of Financial Institutions (OSFI) reviewed BDC's risk management and governance practices. OSFI is the prudential regulator and supervisor of federally regulated financial institutions in Canada. BDC is using the results of this review to strengthen and enhance its risk management practices.

5 Accounting and Control Matters

Significant Accounting Policies

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

Future Changes in Accounting Policies

IFRS 9, *Financial Instruments*

On July 24, 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9, *Financial Instruments*, bringing together the classification and measurement, impairment, and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The IASB is continuing to work on its macro hedge accounting project in a separate project from IFRS 9.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, and shall be applied retrospectively, subject to certain exceptions.

Classification and measurement

IFRS 9 introduces a principles-based approach to the classification and measurement of financial assets. Debt instruments, including hybrid contracts, are measured at amortized cost, fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI), based on an entity's business model and the nature of the cash flows of the assets. These categories replace the existing IAS 39: classifications of loans and receivables, FVTPL (held-for-trading and designated as at FVTPL) and available-for-sale. Equity instruments are measured as at FVTPL, unless they are not held for trading purposes, in which case an election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

The requirements of IAS 39 for financial liabilities are carried forward to IFRS 9 essentially unchanged.

BDC does not expect the classification and measurement requirements of IFRS 9 to have a significant impact on the current classification and measurement of its financial instruments under IAS 39.

Impairment

IFRS 9 introduces an expected credit loss (ECL) impairment model that differs significantly from the incurred loss model currently required under IAS 39 and is expected to result in earlier recognition of credit losses.

The ECL impairment model found in IFRS 9 is applicable to all financial assets classified at amortized cost or FVOCI, as well as to off-balance-sheet loan commitments and financial guarantees, which were previously provided for under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

Under IFRS 9, credit loss allowances will be measured on each reporting date according to a three-stage ECL impairment model:

> stage 1—Recognition of 12-month ECLs for performing instruments

> stage 2—Recognition of lifetime ECLs for performing instruments that have experienced a significant increase in credit risk

> stage 3—Recognition of lifetime ECLs for non-performing financial instruments

Stage 1 and stage 2 credit loss allowances effectively replace the collective allowance for incurred but not yet identified losses recorded under IAS 39, while stage 3 credit loss allowances effectively replace the individual allowance for impaired loans.

ECLs will be measured as the probability-weighted present value of expected credit losses over the remaining expected life of the financial instrument and will consider reasonable and supportable information about past events, current conditions, and forecasts of future events and economic conditions. Probability-weighted scenarios will be considered when determining stage allocation and measuring ECLs.

BDC is currently finalizing the development and validation of the impairment models for calculating ECLs. However, it is too early to quantify the potential financial impact of adopting IFRS 9.

Hedge accounting
The new hedge accounting model under IFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with an entity's risk management activities, and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting.

BDC is currently assessing whether to adopt the hedge accounting requirements found in IFRS 9 or to cease hedge accounting all together.

Transition
To manage its transition to IFRS 9, BDC has implemented a project team, led jointly by Finance and Risk Management, that focuses on the key areas of impact, including financial reporting, modelling, data, systems and processes, as well as communication to and training for stakeholders.

BDC is on track to meet the requirements of IFRS 9 by the date on which the standard becomes effective, which is April 1, 2018.

IFRS 15, *Revenue from Contracts with Customers*
On May 28, 2014, the IASB issued a new standard, IFRS 15, *Revenue from Contracts with Customers*, replacing IAS 18, *Revenue*. The core principle of the standard is that an entity will recognize revenue when it transfers promised goods or services to customers, in an amount that reflects the consideration to which the entity is expected to be entitled in exchange for those goods or services.

In April 2016, the IASB issued amendments to IFRS 15, which clarify the underlying principles of IFRS 15 and provide additional transitional relief on initial application. The new standard and its amendments are effective for annual periods beginning on or after January 1, 2018.

BDC has completed its analysis of IFRS 15 and has concluded that its adoption will not have a material impact on the Consolidated Financial Statements.

IFRS 16, *Leases*
On January 13, 2016, the IASB issued a new standard, IFRS 16, *Leases*, which supersedes IAS 17, *Leases* and related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The standard provides a single lessee accounting model requiring lessees to recognize lease assets and lease liabilities on the statement of financial position for most leases. Lessors will continue classifying leases as operating or finance, since IFRS 16's approach to lessor accounting is substantially unchanged from IAS 17.

The new standard is effective for annual periods beginning on or after January 1, 2019.

BDC is currently assessing the impact of the adoption of IFRS 16.

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 credit losses, fair value of financial instruments, qualifying hedge relationships, impairment of available-for-sale assets, consolidation, defined benefit pension plans and other post-employment benefits.

Controls and Procedures

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

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of 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, 2017, 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, 2017, 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

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Management's Responsibility for Financial Information

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

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

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

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

Michael Denham
President and Chief Executive Officer

Montreal, Canada
June 14, 2017

Paul Buron, CPA, CA
Executive Vice President
and Chief Financial Officer

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

Deloitte.

Independent Auditors' Report

To the Minister of Innovation, Science and Economic Development

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of the Business Development Bank of Canada, which comprise the consolidated statement of financial position as at 31 March 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Business Development Bank of Canada as at 31 March 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements
As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Business Development Bank of Canada and its wholly-owned subsidiary that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with 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*.

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

Deloitte LLP[1]

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

14 June 2017
Montréal, Canada

Consolidated Statement of Financial Position

(in thousands of Canadian dollars)

	Notes	**March 31, 2017**	March 31, 2016
ASSETS			
Cash and cash equivalents	7	**649,168**	680,093
Derivative assets	8	**21,332**	51,687
Loans and investments			
Asset-backed securities	9	**518,088**	509,758
Loans	10	**21,752,511**	19,717,706
Subordinate financing investments	11	**860,448**	751,404
Venture capital investments	12	**1,015,713**	928,000
Venture capital action plan investments	13	**301,541**	137,668
Total loans and investments		**24,448,301**	22,044,536
Property and equipment	14	**29,103**	22,849
Intangible assets	15	**33,148**	38,446
Net defined benefit asset	19	**121,098**	53,995
Other assets	16	**14,615**	14,297
Total assets		**25,316,765**	22,905,903
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities	17	**119,035**	96,966
Derivative liabilities	8	**1,789**	4,077
Borrowings	18		
Short-term notes		**18,809,436**	16,848,041
Long-term notes		**167,391**	350,268
Total borrowings		**18,976,827**	17,198,309
Net defined benefit liability	19	**231,498**	217,996
Other liabilities	20	**48,321**	39,036
Total liabilities		**19,377,470**	17,556,384
Equity			
Share capital	21	**2,413,400**	2,288,400
Contributed surplus		**27,778**	27,778
Retained earnings		**3,473,612**	3,003,483
Accumulated other comprehensive income		**2,710**	3,812
Equity attributable to BDC's shareholder		**5,917,500**	5,323,473
Non-controlling interests		**21,795**	26,046
Total equity		**5,939,295**	5,349,519
Total liabilities and equity		**25,316,765**	22,905,903

Guarantees and contingent liabilities (Note 26)
Commitments (Note 27)

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

Michael Calyniuk
Director
Chairperson, Audit Committee

Michael Denham
Director
President and Chief Executive Officer

Consolidated Statement of Income

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

	2017	2016
Interest income	**1,169,576**	1,091,897
Interest expense	**79,435**	75,556
Net interest income	**1,090,141**	1,016,341
Net realized gains (losses) on investments	**6,744**	(5,991)
Revenue from Advisory Services	**20,332**	16,402
Fee and other income	**54,103**	48,555
Net realized gains (losses) on other financial instruments	**2,392**	957
Net revenue	**1,173,712**	1,076,264
Provision for credit losses	**(179,545)**	(160,909)
Net change in unrealized appreciation (depreciation) of investments	**2,897**	86,020
Net unrealized foreign exchange gains (losses) on investments	**10,940**	8,305
Net unrealized gains (losses) on other financial instruments	**(1,210)**	3,513
Income before operating and administrative expenses	**1,006,794**	1,013,193
Salaries and benefits	**371,417**	331,096
Premises and equipment	**40,366**	38,817
Other expenses	**130,195**	105,549
Operating and administrative expenses	**541,978**	475,462
Net income	**464,816**	537,731
Net income attributable to:		
BDC's shareholder	**465,974**	535,448
Non-controlling interests	**(1,158)**	2,283
Net income	**464,816**	537,731

The accompanying notes are an integral part of these Consolidated Financial Statements.
Note 24 provides additional information on the Consolidated Statement of Income and Note 25 provides segmented information.

Consolidated Statement of Comprehensive Income

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

	2017	2016
Net income	**464,816**	537,731
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net income		
Net change in unrealized gains (losses) on available-for-sale assets	**(1,668)**	(2,990)
Net unrealized gains (losses) on cash flow hedges	**970**	(956)
Reclassification to net income of losses (gains) on cash flow hedges	**(404)**	(176)
Net change in unrealized gains (losses) on cash flow hedges	**566**	(1,132)
Total items that may be reclassified subsequently to net income	**(1,102)**	(4,122)
Items that will not be reclassified to net income		
Remeasurements of net defined benefit asset or liability	**72,804**	(39,531)
Other comprehensive income (loss)	**71,702**	(43,653)
Total comprehensive income	**536,518**	494,078
Total comprehensive income attributable to:		
BDC's shareholder	**537,676**	491,795
Non-controlling interests	**(1,158)**	2,283
Total comprehensive income	**536,518**	494,078

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)

				Accumulated other comprehensive income (loss)					
	Share capital	Contributed surplus	Retained earnings	Available-for-sale assets	Cash flow hedges	Total	Equity attributable to BDC's shareholder	Non-controlling interests	Total equity
Balance as at March 31, 2016	**2,288,400**	**27,778**	**3,003,483**	**957**	**2,855**	**3,812**	**5,323,473**	**26,046**	**5,349,519**
Total comprehensive income									
Net income			**465,974**				**465,974**	**(1,158)**	**464,816**
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				**(1,668)**		**(1,668)**	**(1,668)**		**(1,668)**
Net change in unrealized gains (losses) on cash flow hedges					**566**	**566**	**566**		**566**
Remeasurements of net defined benefit asset or liability			**72,804**				**72,804**		**72,804**
Other comprehensive income (loss)	**–**	**–**	**72,804**	**(1,668)**	**566**	**(1,102)**	**71,702**	**–**	**71,702**
Total comprehensive income	**–**	**–**	**538,778**	**(1,668)**	**566**	**(1,102)**	**537,676**	**(1,158)**	**536,518**
Dividends on common shares			**(68,649)**				**(68,649)**		**(68,649)**
Distributions to non-controlling interests								**(4,971)**	**(4,971)**
Capital injections from non-controlling interests								**1,878**	**1,878**
Issuance of common shares	**125,000**						**125,000**		**125,000**
Transactions with owner, recorded directly in equity	**125,000**	**–**	**(68,649)**	**–**	**–**	**–**	**56,351**	**(3,093)**	**53,258**
Balance as at March 31, 2017	**2,413,400**	**27,778**	**3,473,612**	**(711)**	**3,421**	**2,710**	**5,917,500**	**21,795**	**5,939,295**

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

Consolidated Statement of Changes in Equity (continued)

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

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss): Available-for-sale assets	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, 2015	2,138,400	27,778	2,570,454	3,947	3,987	7,934	4,744,566	34,554	4,779,120
Total comprehensive income									
Net income			535,448				535,448	2,283	537,731
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				(2,990)		(2,990)	(2,990)		(2,990)
Net change in unrealized gains (losses) on cash flow hedges					(1,132)	(1,132)	(1,132)		(1,132)
Remeasurements of net defined benefit asset or liability			(39,531)				(39,531)		(39,531)
Other comprehensive income (loss)	–	–	(39,531)	(2,990)	(1,132)	(4,122)	(43,653)	–	(43,653)
Total comprehensive income	–	–	495,917	(2,990)	(1,132)	(4,122)	491,795	2,283	494,078
Dividends on common shares			(62,888)				(62,888)		(62,888)
Distributions to non-controlling interests								(12,344)	(12,344)
Capital injections from non-controlling interests								1,553	1,553
Issuance of common shares	150,000						150,000		150,000
Transactions with owner, recorded directly in equity	150,000	–	(62,888)	–	–	–	87,112	(10,791)	76,321
Balance as at March 31, 2016	2,288,400	27,778	3,003,483	957	2,855	3,812	5,323,473	26,046	5,349,519

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)

	2017	2016
Operating activities		
Net income	**464,816**	537,731
Adjustments to determine net cash flows		
Interest income	**(1,169,576)**	(1,091,897)
Interest expense	**79,435**	75,556
Net realized losses (gains) on investments	**(6,744)**	5,991
Provision for credit losses	**179,545**	160,909
Net change in unrealized depreciation (appreciation) on investments	**(2,897)**	(86,020)
Net unrealized foreign exchange losses (gains) on investments	**(10,940)**	(8,305)
Net unrealized losses (gains) on other financial instruments	**1,210**	(3,513)
Defined benefits funding below (in excess) of amounts expensed	**19,203**	5,235
Depreciation of property and equipment, and amortization of intangible assets	**15,708**	17,580
Loss on derecognition of property and equipment	**46**	2,387
Other	**(20,061)**	(13,650)
Interest expense paid	**(79,993)**	(76,386)
Interest income received	**1,136,337**	1,063,294
Changes in operating assets and liabilities		
Net change in loans	**(2,157,463)**	(1,433,535)
Net change in accounts payable and accrued liabilities	**22,069**	(5,030)
Net change in other assets and other liabilities	**8,967**	1,392
Net cash flows provided (used) by operating activities	**(1,520,338)**	(848,261)
Investing activities		
Disbursements for asset-backed securities	**(227,631)**	(317,238)
Repayments and proceeds on sale of asset-backed securities	**217,721**	212,222
Disbursements for subordinate financing investments	**(286,486)**	(254,076)
Repayments of subordinate financing investments	**162,691**	146,023
Disbursements for venture capital investments	**(184,719)**	(232,169)
Proceeds on sale of venture capital investments	**127,686**	100,795
Disbursements for venture capital action plan investments	**(157,794)**	(86,367)
Proceeds on sale of venture capital action plan investments	**4,519**	229
Acquisition of property and equipment	**(12,136)**	(7,866)
Acquisition of intangible assets	**(4,574)**	–
Net cash flows provided (used) by investing activities	**(360,723)**	(438,447)
Financing activities		
Net change in short-term notes	**1,961,227**	1,412,518
Repayment of long-term notes	**(164,349)**	(189,122)
Distributions to non-controlling interests	**(4,971)**	(12,344)
Capital injections from non-controlling interests	**1,878**	1,553
Issuance of common shares	**125,000**	150,000
Dividends paid on common shares	**(68,649)**	(62,888)
Net cash flows provided (used) by financing activities	**1,850,136**	1,299,717
Net increase (decrease) in cash and cash equivalents	**(30,925)**	13,009
Cash and cash equivalents at beginning of year	**680,093**	667,084
Cash and cash equivalents at end of year	**649,168**	680,093

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

Notes to the Consolidated Financial Statements

For the year ended March 31, 2017 (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 400, 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 consulting 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, 2017, and March 31, 2016.

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 Innovation, Science and Economic Development. 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 the requirements of section 89 and confirms that the directive has been met since then.

Pursuant to section 89 of the FAA, BDC received a directive in December 2014 from the Governor General in Council (P.C. 2014-1378) requesting that BDC review its current pension plan and ensure that it remains affordable, financially sustainable and consistent with the terms of the Public Service Pension Plan. These changes are intended to ensure that pension plans of Crown corporations provide a 50:50 current service cost-sharing ratio between employee and employer for pension contributions, as well as to raise the normal age of retirement to 65 years. Consequently, to comply with this directive, BDC implemented modifications to its existing defined benefit pension plan to be phased in by December 31, 2017. 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.

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. The directive also instructed BDC to report on its implementation of this directive in its next corporate plan. Consequently, to comply with this directive, BDC implemented modifications to its Bank Business Expense Policy and Corporate Directive in two phases. The first phase, which became effective on September 8, 2015, introduced per diem meal allowances, and guidance on providing meals and refreshments at internal pre-planned team meetings, training and other events, as well as the cessation of subsidized employee social events. Disclosure on BDC's website of information on travel and hospitality expenses for the Chairman of the Board, the President and Chief Executive Officer, and each member of the executive team became effective on December 31, 2015. The second phase, which was implemented during fiscal 2017, addressed the pre-approval requirement for travel and events, and the maximum limits for the amount that can be spent on meals and refreshments when hosting clients and stakeholders or holding internal conferences with employees. BDC has also reported on the implementation of the directive in its Corporate Plans and has published its Bank Business Expense Policy on its website in May 2017.

2.

Basis of Preparation

Statement of compliance

BDC has prepared its Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS). These Consolidated Financial Statements were approved for issue by the Board of Directors on June 14, 2017.

Basis of presentation and measurement

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

- available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss, and derivative financial instruments have been measured at fair value; and
- the net defined benefit asset or liability in respect of post-employment benefits has been recognized as the present value of the defined benefit obligation less the fair value of the plans' assets.

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

Basis of consolidation

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

The Consolidated Financial Statements of BDC comprise the financial statements of the parent entity and the consolidated financial statements of the subsidiaries referred to above as of March 31, 2017, and March 31, 2016. 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 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 Investment Fund Inc.	Investments in subordinate financing	Canada	50%	Voting power and contractual agreements
AlterInvest Fund L.P.	Investments in subordinate financing	Canada	50%	Voting power and contractual agreements
AlterInvest II Fund L.P.	Investments in subordinate financing	Canada	50%	Voting power and contractual agreements
Go Capital L.P.	Investments in venture capital	Canada	20%	Voting power and contractual agreements

Go Capital L.P.

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

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

2. Basis of Preparation (continued)

AlterInvest II Fund L.P.

During fiscal 2014, having reached the end of their intended lives, AlterInvest Fund L.P. and AlterInvest Investment Fund Inc. began liquidating their investments. Those investments that were not reimbursed by their respective clients were transferred into AlterInvest II Fund L.P. As each partner has equal interest in all of the funds, their partnership interest in AlterInvest II Fund L.P. did not change as a result of these transactions. BDC is in the process of dissolving these entities.

Non-controlling interests

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

Associates

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

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

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

Financial instruments are recognized and derecognized using settlement date accounting.

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Recognition and measurement of financial instruments (continued)
Financial instruments are measured in subsequent periods either at fair value or at amortized cost using the effective interest rate method, depending on the financial instrument classification.

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.

Classification of financial instruments
Fair value through profit or loss
Financial instruments carried at fair value through profit or loss include financial instruments that are either (i) classified as held-for-trading or (ii) designated as at fair value through profit or loss upon initial recognition if they meet certain conditions.

Financial instruments classified as held-for-trading
A financial instrument is classified as held-for-trading if:

> it is acquired or incurred principally for the purpose of selling or repurchasing instruments in the near term; or

> at initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivative financial instruments are also classified as held-for-trading unless they are designated as hedging instruments.

Financial instruments designated as at fair value through profit or loss
A financial instrument can be designated as at fair value through profit or loss in the following circumstances:

> the asset or liability is managed, evaluated and reported internally on a fair value basis;

> the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise; or

> the asset or liability contains an embedded derivative that is separable and significantly modifies the cash flows that would otherwise be required under the contract.

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

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

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

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

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

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

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Classification of financial instruments (continued)

Available-for-sale financial assets

Available-for-sale assets are non-derivative financial assets that are:

> intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity, or changes in interest rates, exchange rates or equity prices; and

> not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Subsequent to initial recognition, available-for-sale assets are measured at fair value, with unrealized gains and losses recorded in other comprehensive income (OCI) until the asset is derecognized, with the exception of impairment losses, which are recorded in the Consolidated Statement of Income during the period in which the asset is determined to have become impaired.

Upon disposal of available-for-sale assets, the accumulated fair value adjustments recognized in OCI are reclassified to the Consolidated Statement of Income and are reported as net realized gains or losses on investments.

Cash flow hedges

BDC designates certain derivatives held for risk management as cash flow hedges. BDC documents all hedging relationships and its risk management objectives, along with its strategy for carrying out the hedge transactions. BDC assesses whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flow of hedged items, both at inception and over the life of the hedge.

Subsequent to initial recognition, derivatives designated as cash flow hedges are measured at fair value. The effective portion of changes in fair value of these derivatives is recognized in OCI and accumulated other comprehensive income (AOCI), while changes related to the ineffective portion are recorded in the Consolidated Statement of Income as net unrealized gains or losses on other financial instruments. Amounts in AOCI are recycled to the Consolidated Statement of Income in the periods where the hedged items affect net income. They are recorded in the financial statement lines associated with the related hedged items.

If these hedging instruments expire, are sold or no longer meet the criteria for hedge accounting, the amounts previously recognized in OCI are reclassified to the Consolidated Statement of Income as net realized gains or losses on other financial instruments during the periods when the variability in the cash flows of the hedged item affects net income. However, if a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Consolidated Statement of Income under net realized gains or losses on other financial instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method.

Financial liabilities measured at amortized cost

Financial liabilities that are not carried at fair value through profit or loss fall into the financial liabilities category and are measured subsequently at amortized cost using the effective interest rate method.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

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 have been classified as loans and receivables.

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 ABS are classified as available-for-sale assets and subordinated ABS notes are designated as at 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 on 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.

Impairment of asset-backed securities

At each reporting date, BDC reviews ABS classified as available-for-sale for possible impairments or reversals of previously recognized impairments. BDC determines that ABS are impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and when that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Refer to Note 5—*Significant Accounting Judgements, Estimates and Assumptions* for more information regarding the criteria used to determine whether an impairment has occurred.

Impairment losses and reversals of impairment losses are recognized in the Consolidated Statement of Income during the period in which objective evidence of impairment or reversal of impairment is identified.

Loans

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

Allowance for credit losses

The allowance for credit losses is maintained at a level considered adequate to absorb the credit losses existing in the portfolio at the financial reporting date. Allowances for credit losses are established at both the individual and collective levels.

BDC reviews its loan portfolio on an individual asset basis to assess credit risk and determines whether there is any objective evidence of impairment for which a loss should be recognized in the Consolidated Statement of Income. For BDC, there is objective evidence of impairment when the interest or principal of the loan is in arrears for three consecutive months or more or if there is reason to believe that a portion of the principal or interest cannot be collected.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Major types of financial instruments (continued)

Loans (continued)

Allowance for credit losses (continued)

When a loan is deemed impaired, interest accrual recognition ceases and the carrying amount of the loan is reduced to the present value of its estimated future cash flows discounted using (i) the initial effective interest rate of the loan for fixed rate loans or (ii) the rate at time of impairment for floating rate loans. If cash flows cannot be reasonably determined, the estimated fair value of any underlying collateral is used, whether or not foreclosure is probable.

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

Loans for which an individual allowance has not been established are then included in groups of assets having similar credit risk characteristics and collectively assessed for any impairment that has been incurred but not yet identified.

Refer to Note 5—*Significant Accounting Judgements, Estimates and Assumptions* for more information regarding the criteria used to determine the amount of the allowance.

Subordinate financing, venture capital and venture capital action plan investments

Upon initial recognition, subordinate financing, venture capital and venture capital action plan (VCAP) investments are designated 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.

BDC's valuation process for fair value measurement of subordinate financing, venture capital and VCAP investments has been 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. VCAP includes 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.

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 have been designated as at fair value through profit or loss, as they contain embedded derivatives that would otherwise need to be separated, given that they significantly modify the cash flows required under the host debt contract.

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)

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 either designated as cash flow hedges or classified as held-for-trading.

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

Embedded derivatives that are not closely related to the host contract must be separated and classified as held-for-trading financial instruments, unless the hybrid instrument is designated as at fair value through profit or loss. As at March 31, 2017, and March 31, 2016, BDC had no embedded derivatives that needed to be separated from a host contract.

Interest income, interest expense and fee income

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

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

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 consulting services to entrepreneurs. Revenues from Advisory Services are recognized as revenue when the services are rendered.

Property and equipment and intangible assets

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

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

3. Significant Accounting Policies (continued)

Property and equipment and intangible assets (continued)

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

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

Intangible assets primarily comprise systems and software applications, the cost of which includes the purchase price plus any costs incurred to prepare them for their intended internal use. The intangible assets' lives are finite and are amortized using the straight-line method 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. The amortization expense is included in other expenses in the Consolidated Statement of Income.

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

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

Net defined benefit asset or liability

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

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

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

The defined benefit obligation is calculated for each plan using the projected unit credit method. In determining the present value of its defined benefit obligation, and the related current service cost and past service cost, BDC attributes the benefit to periods of service under the plan's benefit formula. The present value of the defined benefit obligation is calculated by discounting the estimated future cash outflows using interest rates of high-quality corporate and provincial bonds that have terms to maturity approximating the terms of the obligation.

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 available-for-sale 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. Unrealized gains and losses on derivative financial instruments designated as hedging instruments are included in AOCI until such time as the hedged forecasted cash flows are reclassified to net income.

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

Translation of foreign currencies

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

Segmented information

BDC has the following operating segments, which are based on differences in products and services: Financing, Growth & Transition Capital, Venture Capital, Advisory Services, Securitization and Venture Capital Action Plan.

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

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards had been published by the International Accounting Standards Board (IASB) but were not yet effective and had not been adopted early by BDC. These standards include IFRS 9, *Financial Instruments*, IFRS 15, *Revenue from Contracts with Customers*, and IFRS 16, *Leases*, described below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on BDC's Consolidated Financial Statements.

IFRS 9, *Financial Instruments*
On July 24, 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*, bringing together the classification and measurement, impairment, and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. It amends classification and measurement of financial assets, adds new requirements for the accounting of financial liabilities and for general hedge accounting, and introduces a new expected loss impairment model. The IASB is continuing to work on its macro hedge accounting project. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, and shall be applied retrospectively, subject to certain exceptions.

4. Future Accounting Changes (continued)

IFRS 9, *Financial Instruments* (continued)
BDC is currently in the process of finalizing the development and validation of the impairment models for the calculation of expected credit losses. However, it is too early to quantify the potential financial impact of adopting IFRS 9.

IFRS 15, *Revenue from Contracts with Customers*
On May 28, 2014, the IASB issued a new standard, IFRS 15, *Revenue from Contracts with Customers*, replacing IAS 18, *Revenue*. The new standard is effective for annual periods beginning on or after January 1, 2018. The core principle of the standard is that an entity will recognize revenue when it transfers promised goods or services to customers, in an amount that reflects the consideration to which the entity is expected to be entitled in exchange for those goods or services.

BDC has completed its analysis of IFRS 15 and has concluded that its adoption will not have a material impact on the Consolidated Financial Statements.

IFRS 16, *Leases*
On January 13, 2016, the IASB issued a new standard, IFRS 16, *Leases*, which supersedes IAS 17, *Leases* and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The standard provides a single lessee accounting model requiring lessees to recognize assets and liabilities for all leases, unless the lease term is 12 months or less, or if the underlying asset has a low value. Lessors will continue classifying leases as operating or finance, since IFRS 16's approach to lessor accounting is substantially unchanged from IAS 17.

BDC is currently assessing the impact of the adoption of IFRS 16.

5.

Significant Accounting Judgements, Estimates and Assumptions

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

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

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

5. Significant Accounting Judgements, Estimates and Assumptions (continued)

Estimates and assumptions

Allowance for credit losses
The allowance for credit losses on loans represents management's estimate of the losses incurred in the loan portfolio at the reporting date and is established at both the individual and collective asset levels.

BDC reviews its loans individually to assess whether an impairment loss should be recorded. The process requires BDC to make assumptions and judgements by carrying out certain activities, including assessing the impaired status and risk of a loan, and estimating future cash flows and collateral values.

Loans that have been assessed individually and found not to be impaired, and all other loans, are then collectively assessed for any impairment that has been incurred but not yet identified. In assessing collective impairment, BDC uses statistical modelling of historical portfolio trends, such as default rates and loss rates, adjusted to reflect management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling.

Changes in these assumptions, or the use of other reasonable judgements, can materially affect the allowance level. Refer to Note 10—*Loans*, for more information on the allowance for credit losses.

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

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

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

Qualifying hedge relationships
In designating financial instruments in qualifying hedge relationships, BDC has determined that it expects the hedges to be highly effective over the period of the hedging relationship. In accounting for derivatives as cash flow hedges, BDC has determined that the hedged cash flow exposure relates to highly probable future cash flows.

Net defined benefit asset or liability
The cost of defined benefit pension plans and other post-employment benefits, and the present value of the related obligations, are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates used to measure the obligations, expected future salary increases, expected retirement age, expected mortality rates, expected health care cost trends, expected inflation and expected future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Actual results will differ from results that are estimated based on assumptions.

Refer to Note 19—*Net Defined Benefit Asset or Liability* for additional information about the key assumptions.

5. Significant Accounting Judgements, Estimates and Assumptions (continued)

Judgements

Impairment of available-for-sale assets

BDC determines that available-for-sale assets are impaired when there is objective evidence of impairment. Objective evidence that a financial asset or group of assets is impaired may include such events as the financial difficulty or probable bankruptcy or financial reorganization of the issuer, a default or adverse change in status or concession with respect to payments, measurable decreases in the estimated future cash flows from the assets, and a deterioration of correlated economic conditions. Since a combination of factors may cause an impairment, management judgement is required to determine if and when an impairment must be recognized.

Consolidation

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

(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, 2017, and March 31, 2016.

								March 31, 2017
		Measured at fair value				Measured at amortized cost		
		FVTPL(1)						
	Note	Held-for-trading	Designated as at FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Financial liabilities	Total
Financial assets								
Cash and cash equivalents	7					**649,168**		**649,168**
Derivative assets	8	**21,332**						**21,332**
Asset-backed securities	9		**10,048**	**508,040**				**518,088**
Loans	10					**21,752,511**		**21,752,511**
Subordinate financing investments	11		**860,448**					**860,448**
Venture capital investments	12		**1,015,713**					**1,015,713**
Venture capital action plan investments	13		**301,541**					**301,541**
Other assets(2)	16					**6,231**		**6,231**
Total financial assets		**21,332**	**2,187,750**	**508,040**	**–**	**22,407,910**	**–**	**25,125,032**
Financial liabilities								
Accounts payable and accrued liabilities	17						**119,035**	**119,035**
Derivative liabilities	8	**1,789**						**1,789**
Short-term notes	18						**18,809,436**	**18,809,436**
Long-term notes	18		**161,785**				**5,606**	**167,391**
Other liabilities(2)	20						**38,786**	**38,786**
Total financial liabilities		**1,789**	**161,785**	**–**	**–**	**–**	**18,972,863**	**19,136,437**

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

(in thousands of Canadian dollars)

6. Classification and Fair Value of Financial Instruments (continued)

Classification of financial instruments (continued)

March 31, 2016

		Measured at fair value				Measured at amortized cost		
		FVTPL(1)						
	Note	Held-for-trading	Designated as at FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Financial liabilities	Total
Financial assets								
Cash and cash equivalents	7					680,093		680,093
Derivative assets	8	48,963			2,724			51,687
Asset-backed securities	9		7,152	502,606				509,758
Loans	10					19,717,706		19,717,706
Subordinate financing investments	11		751,404					751,404
Venture capital investments	12		928,000					928,000
Venture capital action plan investments	13		137,668					137,668
Other assets(2)	16					9,350		9,350
Total financial assets		48,963	1,824,224	502,606	2,724	20,407,149	–	22,785,666
Financial liabilities								
Accounts payable and accrued liabilities	17						96,966	96,966
Derivative liabilities	8	4,068			9			4,077
Short-term notes	18						16,848,041	16,848,041
Long-term notes	18		251,916				98,352	350,268
Other liabilities(2)	20						28,908	28,908
Total financial liabilities		4,068	251,916	–	9	–	17,072,267	17,328,260

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

Fair value of financial instruments

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, 2017			March 31, 2016
	Fair value hierarchy level	Fair value	Carrying value	Fair value hierarchy level	Fair value	Carrying value
Financial assets classified as loans and receivables						
Loans	**2**	**21,707,892**	**21,752,511**	2	19,781,297	19,717,706
Financial liabilities classified as financial liabilities						
Short-term notes	**1**	**18,805,781**	**18,809,436**	1	16,847,836	16,848,041
Long-term notes	**2**	**5,601**	**5,606**	2	98,450	98,352

6. Classification and Fair Value of Financial Instruments (continued)

Fair value of financial instruments (continued)

Financial instruments carried at amortized cost

Loans classified as loans and receivables

The carrying value of performing floating-rate loans is a reasonable approximation of their fair value because the 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 carrying value determined in accordance with the valuation methods described in Note 3—*Significant Accounting Policies*, under the heading *Allowance for credit losses*.

Short-term notes classified as financial liabilities

The fair value of short-term notes classified as financial liabilities is determined using a quoted market price.

Long-term notes classified as financial liabilities

The fair value of long-term notes classified as financial liabilities 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; and

> level 3—fair values based on valuation techniques with one or more significant unobservable market inputs.

There have been no transfers between levels 1 and 2 or between levels 2 and 3 in the reporting periods. BDC's policy is to recognize transfers between levels 1 and 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)

Fair value of financial instruments (continued)

Financial instruments measured at fair value (continued)

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

				March 31, 2017
	Fair value measurements using			Total
	Level 1	Level 2	Level 3	fair value
Assets				
Derivative assets		**21,332**		**21,332**
Asset-backed securities		**518,088**		**518,088**
Subordinate financing investments	**1,405**		**859,043**	**860,448**
Venture capital investments	**13,475**		**1,002,238**	**1,015,713**
Venture capital action plan investments			**301,541**	**301,541**
	14,880	**539,420**	**2,162,822**	**2,717,122**
Liabilities				
Derivative liabilities		**1,789**		**1,789**
Long-term notes designated as at fair value through profit or loss		**161,785**		**161,785**
	–	**163,574**	**–**	**163,574**

				March 31, 2016
	Fair value measurements using			Total
	Level 1	Level 2	Level 3	fair value
Assets				
Derivative assets		51,687		51,687
Asset-backed securities		509,758		509,758
Subordinate financing investments	824		750,580	751,404
Venture capital investments	11,905		916,095	928,000
Venture capital action plan investments			137,668	137,668
	12,729	561,445	1,804,343	2,378,517
Liabilities				
Derivative liabilities		4,077		4,077
Long-term notes designated as at fair value through profit or loss		251,916		251,916
	–	255,993	–	255,993

(in thousands of Canadian dollars)

6. Classification and Fair Value of Financial Instruments (continued)

Fair value of financial instruments (continued)

Financial instruments measured at fair value (continued)

The following tables present 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, venture capital and venture capital action plan 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 earnings 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 $9.1 million in the current period and an equivalent change in retained earnings ($8.9 million in 2016). Venture capital and venture capital action plan investments are not risk-free rate sensitive.

				March 31, 2017
	Subordinate financing investments	Venture capital investments	Venture capital action plan investments	Total
Fair value as at April 1, 2016	**750,580**	**916,095**	**137,668**	**1,804,343**
Net realized gains (losses) on investments	**1,839**	**2,796**	**–**	**4,635**
Net change in unrealized appreciation (depreciation) of investments	**(18,400)**	**13,699**	**10,532**	**5,831**
Net unrealized foreign exchange gains (losses) on investments	**–**	**10,864**	**66**	**10,930**
Disbursements for investments	**286,486**	**180,719**	**157,794**	**624,999**
Repayments of investments and other	**(161,462)**	**(116,027)**	**(4,519)**	**(282,008)**
Transfers from level 3 to level 1	**–**	**(5,908)**	**–**	**(5,908)**
Fair value as at March 31, 2017	**859,043**	**1,002,238**	**301,541**	**2,162,822**

				March 31, 2016
	Subordinate financing investments	Venture capital investments	Venture capital action plan investments	Total
Fair value as at April 1, 2015	642,203	707,768	47,643	1,397,614
Net realized gains (losses) on investments	394	(6,545)	–	(6,151)
Net change in unrealized appreciation (depreciation) of investments	258	82,792	3,958	87,008
Net unrealized foreign exchange gains (losses) on investments	–	8,258	(71)	8,187
Disbursements for investments	254,076	228,915	86,367	569,358
Repayments of investments and other	(146,351)	(95,478)	(229)	(242,058)
Transfers from level 3 to level 1	–	(9,615)	–	(9,615)
Fair value as at March 31, 2016	750,580	916,095	137,668	1,804,343

(in thousands of Canadian dollars)

6. Classification and Fair Value of Financial Instruments (continued)

Fair value of financial instruments (continued)

Financial instruments measured at fair value (continued)

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

	2017	2016
Net realized gains (losses) on investments	**(6,404)**	1,545
Net change in unrealized appreciation (depreciation) of investments	**4,101**	80,815
Net unrealized foreign exchange gains (losses) on investments	**10,781**	8,098
Total gains (losses) related to level 3 assets still held at the end of the reporting period	**8,478**	90,458

7.

Cash and Cash Equivalents

As at March 31, 2017, and March 31, 2016, there are no restrictions on cash and cash equivalents. Cash and cash equivalents include the following components.

	March 31, 2017	March 31, 2016
Cash	**–**	30,453
Short-term bank notes	**649,168**	649,640
Cash and cash equivalents	**649,168**	680,093

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 enters into master netting agreements with counterparties but does not proceed with netting financial assets and liabilities.

Swaps

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

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

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

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

Forwards

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

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

Foreign exchange rate
BDC economically hedges its long-term borrowings with cross-currency interest rate swaps, and its loans and subordinate financing investments with foreign exchange forward contracts. Venture capital investments are economically hedged following the occurrence of a liquidity event. These instruments have been classified as held-for-trading.

(in thousands of Canadian dollars)

8. Derivative Financial Instruments (continued)

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. These contracts have been designated as cash flow hedges. There was no significant ineffectiveness of cash flow hedges in 2017 and 2016.

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 held-for-trading.

The following tables provide the fair value of BDC's derivatives portfolio as represented by gross assets and gross liabilities values.

			March 31, 2017
	Gross assets	Gross liabilities	Net amount
Held-for-trading			
Interest rate swap contracts	**18,765**	**1,709**	**17,056**
Cross-currency interest rate swap contracts	**1,997**	**–**	**1,997**
Foreign exchange forward contracts	**570**	**80**	**490**
Total held-for-trading	**21,332**	**1,789**	**19,543**
Total	**21,332**	**1,789**	**19,543**

			March 31, 2016
	Gross assets	Gross liabilities	Net amount
Hedging			
Interest rate swap contracts	2,724	9	2,715
Total hedging	2,724	9	2,715
Held-for-trading			
Interest rate swap contracts	39,482	3,833	35,649
Cross-currency interest rate swap contracts	2,134	–	2,134
Foreign exchange forward contracts	7,347	235	7,112
Total held-for-trading	48,963	4,068	44,895
Total	51,687	4,077	47,610

(in thousands of Canadian dollars)

8. Derivative Financial Instruments (continued)

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

	Term to maturity or repricing				**March 31, 2017**	March 31, 2016
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	Notional amount	Notional amount
Hedging						
Interest rate swap contracts						
CAD payable-fixed	–	–	–	–	–	150,000
% payable-fixed	–	–	–	–		
CAD receivable-fixed	–	–	–	–	–	275,000
% receivable-fixed	–	–	–	–		
	–	–	–	–	–	425,000
Held-for-trading						
Interest rate swap contracts						
CAD payable-fixed	60,000	–	–	–	**60,000**	60,000
% payable-fixed	*4.17*	–	–	–		
CAD receivable-fixed	–	–	124,139	–	**124,139**	195,988
% receivable-fixed	–	–	*4.63*	–		
	60,000	–	124,139	–	**184,139**	255,988
Cross-currency interest rate swap contracts	10,875	–	7,254	–	**18,129**	18,129
	70,875	–	131,393	–	**202,268**	274,117
Foreign exchange forward contracts	335,462	–	–	–	**335,462**	254,728
Total held-for-trading	406,337	–	131,393	–	**537,730**	528,845
Total	406,337	–	131,393	–	**537,730**	953,845

The rates represent the weighted average interest rates that BDC has contracted to pay or to receive up to maturity or repricing. The floating side for almost all of the Canadian dollar swap contracts is based on one-month Canadian bankers' acceptance rates. All amounts in foreign currencies are converted into the Canadian dollar equivalent using the rate of exchange of the derivative contracts.

(in thousands of Canadian dollars)

9.
Asset-Backed Securities

The following table summarizes asset-backed securities by classification of financial instruments. As at March 31, 2017, $53,101 in asset-backed securities had maturities of less than five years ($3,389 as at March 31, 2016) and $464,987 had maturities over five years ($506,369 as at March 31, 2016). The asset-backed securities 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 asset-backed securities were impaired as at March 31, 2017, and March 31, 2016. Refer to Note 23—*Risk Management*, for additional information on credit risk associated with the asset-backed securities portfolio.

	March 31, 2017	March 31, 2016
Available-for-sale		
Principal amount	**508,751**	501,649
Cumulative fair value appreciation (depreciation)	**(711)**	957
Carrying value	**508,040**	502,606
Yield	**1.86%**	1.77%
Fair value through profit or loss		
Principal amount	**10,010**	7,105
Cumulative fair value appreciation (depreciation)	**38**	47
Carrying value	**10,048**	7,152
Yield	**6.94%**	6.95%
Asset-backed securities	**518,088**	509,758

10.
Loans

The following tables summarize loans outstanding by contractual maturity date.

2017	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	**203,598**	**2,581,400**	**18,946,099**	**21,731,097**	**(396,000)**	**–**	**(396,000)**	**21,335,097**
Impaired	**23,222**	**143,872**	**551,202**	**718,296**	**–**	**(300,882)**	**(300,882)**	**417,414**
Loans as at March 31, 2017	**226,820**	**2,725,272**	**19,497,301**	**22,449,393**	**(396,000)**	**(300,882)**	**(696,882)**	**21,752,511**

2016	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	220,222	2,292,473	17,256,082	19,768,777	(390,000)	–	(390,000)	19,378,777
Impaired	19,837	74,442	460,374	554,653	–	(215,724)	(215,724)	338,929
Loans as at March 31, 2016	240,059	2,366,915	17,716,456	20,323,430	(390,000)	(215,724)	(605,724)	19,717,706

(in thousands of Canadian dollars)

10. Loans (continued)

Impaired loans

	March 31, 2017	March 31, 2016
Impaired at beginning of year	**554,653**	490,556
Downgraded	**544,613**	431,914
Upgraded	**(78,620)**	(88,942)
Write-offs	**(85,655)**	(81,127)
Liquidation and other	**(216,695)**	(197,748)
Balance at end of year	**718,296**	554,653

Allowance for credit losses

	March 31, 2017	March 31, 2016
Balance at beginning of year	**605,724**	529,923
Write-offs	**(85,655)**	(81,127)
Effect of discounting	**(14,948)**	(13,395)
Recoveries and other	**12,216**	9,414
	517,337	444,815
Provision for credit losses	**179,545**	160,909
Balance at end of year	**696,882**	605,724

Credit risk

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

As at March 31, 2017, $32.8 million ($26.2 million as at March 31, 2016) 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.

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

BDC rating	Grade equivalent	**March 31, 2017**		March 31, 2016	
0.5 to 1.0	Investment grade	**1,438,371**	**7%**	1,365,463	7%
1.5 to 2.0	Non-investment grade	**5,687,648**	**26%**	5,552,109	28%
2.5 to 4.0		**10,961,110**	**50%**	9,350,134	47%
4.5 to 5.0		**2,819,576**	**13%**	2,731,331	14%
5.5	Watchlist	**824,392**	**4%**	769,740	4%
Performing loans outstanding		**21,731,097**	**100%**	19,768,777	100%

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

Secured risk exposure	**March 31, 2017**		March 31, 2016	
Secured financing(1)	**16,615,622**	**76%**	15,205,053	77%
Partially secured financing(2)	**2,058,817**	**10%**	2,027,749	10%
Leverage financing(3)	**3,056,658**	**14%**	2,535,975	13%
Performing loans outstanding	**21,731,097**	**100%**	19,768,777	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)

10. Loans (continued)

Credit risk (continued)

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

Loans past due but not impaired	Within 1 month	1 to 3 months	Over 3 months	Total
As at March 31, 2017	**129,856**	**36,303**	**9,541**	**175,700**
As at March 31, 2016	135,723	29,251	8,889	173,863

Concentrations of the total loans outstanding, 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, 2017, and March 31, 2016.

Geographic distribution	March 31, 2017	March 31, 2016
Newfoundland and Labrador	**889,754**	849,591
Prince Edward Island	**60,087**	56,456
Nova Scotia	**547,775**	528,651
New Brunswick	**446,742**	467,311
Quebec	**7,040,483**	6,496,866
Ontario	**5,979,102**	5,242,987
Manitoba	**689,135**	653,069
Saskatchewan	**767,651**	701,224
Alberta	**3,381,974**	3,000,998
British Columbia	**2,515,417**	2,200,621
Yukon	**100,326**	95,400
Northwest Territories and Nunavut	**30,947**	30,256
Total loans outstanding	**22,449,393**	20,323,430

Industry sector	March 31, 2017	March 31, 2016
Manufacturing	**5,178,805**	4,503,108
Wholesale and retail trade	**4,314,423**	4,109,247
Service industries	**3,073,195**	2,681,948
Tourism	**2,772,742**	2,562,826
Commercial properties	**2,345,410**	2,166,365
Construction	**1,888,205**	1,714,697
Transportation and storage	**1,257,632**	1,221,123
Resources	**918,982**	811,028
Other	**699,999**	553,088
Total loans outstanding	**22,449,393**	20,323,430

(in thousands of Canadian dollars)

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, 2017	**83,498**	**664,213**	**145,202**	**892,913**	**860,448**
As at March 31, 2016	76,089	565,188	124,772	766,049	751,404

Subordinate financing investments have subordinate status in relationship to the other debt issued by a company. The principal collaterals pledged as security and other credit enhancements related to subordinate financing investments include (i) various security on assets; (ii) personal and corporate guarantees; (iii) assignments of life insurance; and (iv) postponements of third-party loans. When possible, BDC security also includes a first-rank lien on the intellectual property of the borrower.

The concentrations of 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, 2017, was 2.2% of total subordinate financing investments at cost (2.4% as at March 31, 2016). Subordinate financing's portfolio is composed primarily of debentures.

		March 31, 2017		March 31, 2016
Geographic distribution	Fair value	Cost	Fair value	Cost
Newfoundland and Labrador	**5,710**	**6,730**	5,252	5,773
Nova Scotia	**18,154**	**19,695**	16,963	17,108
New Brunswick	**30,421**	**27,630**	29,135	25,426
Quebec	**323,096**	**341,323**	302,632	319,494
Ontario	**310,532**	**310,909**	262,383	260,106
Manitoba	**7,195**	**5,856**	14,097	7,260
Saskatchewan	**18,091**	**18,181**	14,957	14,529
Alberta	**96,892**	**112,265**	72,650	80,877
British Columbia	**46,089**	**46,009**	29,776	31,715
Yukon	**3,264**	**3,210**	2,548	2,656
Northwest Territories and Nunavut	**1,004**	**1,105**	1,011	1,105
Subordinate financing investments	**860,448**	**892,913**	751,404	766,049

		March 31, 2017		March 31, 2016
Industry sector	Fair value	Cost	Fair value	Cost
Manufacturing	**267,839**	**280,376**	259,348	267,869
Service industries	**218,745**	**228,135**	170,955	179,235
Wholesale and retail trade	**156,008**	**158,579**	133,656	135,052
Construction	**63,388**	**60,859**	68,130	60,652
Resources	**62,298**	**75,313**	45,820	53,125
Information industries	**34,749**	**35,060**	28,237	28,473
Transportation and storage	**14,076**	**14,404**	10,350	10,850
Educational services	**10,133**	**10,076**	2,796	2,728
Tourism	**9,589**	**9,981**	5,229	5,866
Other	**23,623**	**20,130**	26,883	22,199
Subordinate financing investments	**860,448**	**892,913**	751,404	766,049

(in thousands of Canadian dollars)

12.

Venture Capital Investments

BDC maintains a high-risk portfolio of venture capital investments that is focused on early-stage and fast-growing technology companies having promising positions in their respective marketplaces and strong growth potential. Venture capital investments, which are held for a longer term, are non-current assets.

The following table presents a summary of the venture capital portfolio, by type of investment.

		March 31, 2017		March 31, 2016
Investment type	Fair value	Cost	Fair value	Cost
Common shares	**53,814**	**84,690**	60,298	80,567
Preferred shares	**523,231**	**452,858**	438,341	394,025
Debentures	**27,028**	**34,905**	54,215	56,389
Total direct investments	**604,073**	**572,453**	552,854	530,981
Funds(1)	**411,640**	**312,450**	375,146	287,271
Venture capital investments	**1,015,713**	**884,903**	928,000	818,252

(1) As at March 31, 2017, BDC had invested in 64 funds (55 funds as at March 31, 2016).

The concentrations by industry sector for direct investments are listed below. The largest single investment within these sectors as at March 31, 2017, was 5.68% of total venture capital direct investments at cost (5.27% as at March 31, 2016).

		March 31, 2017		March 31, 2016
Industry sector	Fair value	Cost	Fair value	Cost
Information technology	**253,274**	**218,443**	200,706	188,322
Biotechnology and pharmacology	**159,309**	**129,523**	140,414	102,042
Electronics	**63,289**	**79,060**	81,986	92,041
Communications	**53,710**	**51,891**	43,887	43,484
Medical and health	**25,001**	**51,407**	40,763	52,739
Industrial	**15,755**	**16,783**	12,135	17,785
Energy	**11,668**	**9,762**	23,457	26,073
Other	**22,067**	**15,584**	9,506	8,495
Total direct investments	**604,073**	**572,453**	552,854	530,981

13.

Venture Capital Action Plan Investments

Venture Capital Action Plan is a federal government initiative to invest $400 million to increase private sector venture capital financing for high-potential, innovative Canadian businesses.

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

As at March 31, 2017, the fair value of venture capital action plan investments stood at $301,541 ($137,668 as at March 31, 2016), and their cost was $291,180 ($137,905 as at March 31, 2016).

(in thousands of Canadian dollars)

14.
Property and Equipment

	Computer and telecommunications equipment	Furniture, fixtures and equipment	Leasehold improvements	Total
				2017
Cost				
Balance as at March 31, 2016	**17,527**	**19,268**	**31,186**	**67,981**
Additions	**3,141**	**2,338**	**6,657**	**12,136**
Derecognition(1)	**(7,166)**	**(3,715)**	**(9,022)**	**(19,903)**
Balance as at March 31, 2017	**13,502**	**17,891**	**28,821**	**60,214**
Accumulated depreciation				
Balance as at March 31, 2016	**12,566**	**10,385**	**22,181**	**45,132**
Depreciation	**2,129**	**1,543**	**2,164**	**5,836**
Derecognition(1)	**(7,166)**	**(3,700)**	**(8,991)**	**(19,857)**
Balance as at March 31, 2017	**7,529**	**8,228**	**15,354**	**31,111**
Property and equipment as at March 31, 2017	**5,973**	**9,663**	**13,467**	**29,103**

(1) Derecognition of $19.9 million relates to fully depreciated property and equipment that are no longer in use.

	Computer and telecommunications equipment	Furniture, fixtures and equipment	Leasehold improvements	Total
				2016
Cost				
Balance as at March 31, 2015	25,641	18,402	32,623	76,666
Additions	2,388	2,513	2,965	7,866
Derecognition(2)	(10,502)	(1,647)	(4,402)	(16,551)
Balance as at March 31, 2016	17,527	19,268	31,186	67,981
Accumulated depreciation				
Balance as at March 31, 2015	16,819	10,676	24,736	52,231
Depreciation	3,862	1,356	1,847	7,065
Derecognition(2)	(8,115)	(1,647)	(4,402)	(14,164)
Balance as at March 31, 2016	12,566	10,385	22,181	45,132
Property and equipment as at March 31, 2016	4,961	8,883	9,005	22,849

(2) Derecognition of $16.6 million includes $11.6 million of fully depreciated property and equipment that are no longer in use and $5.0 million derecognition of computer equipment, resulting in a loss of $2.4 million recorded in other expenses under the line item “Computer and software, including amortization and depreciation” as detailed in Note 24—*Additional Information on the Consolidated Statement of Income.*

No property and equipment were impaired as at March 31, 2017 and March 31, 2016.

(in thousands of Canadian dollars)

15.
Intangible Assets

			2017
	Acquired systems and software applications	Projects in progress	Total
Cost			
Balance as at March 31, 2016	**96,030**	**–**	**96,030**
Additions, separately acquired	**–**	**4,574**	**4,574**
Derecognition(1)	**(373)**	**–**	**(373)**
Balance as at March 31, 2017	**95,657**	**4,574**	**100,231**
Accumulated amortization			
Balance as at March 31, 2016	**57,584**	**–**	**57,584**
Amortization	**9,872**	**–**	**9,872**
Derecognition(1)	**(373)**	**–**	**(373)**
Balance as at March 31, 2017	**67,083**	**–**	**67,083**
Intangible assets as at March 31, 2017	**28,574**	**4,574**	**33,148**

(1) Derecognition of $0.4 million relates to fully amortized intangible assets no longer in use.

			2016
	Acquired systems and software applications	Projects in progress	Total
Cost			
Balance as at March 31, 2015	98,188	–	98,188
Derecognition(2)	(2,158)	–	(2,158)
Balance as at March 31, 2016	96,030	–	96,030
Accumulated amortization			
Balance as at March 31, 2015	49,227	–	49,227
Amortization	10,515	–	10,515
Derecognition(2)	(2,158)	–	(2,158)
Balance as at March 31, 2016	57,584	–	57,584
Intangible assets as at March 31, 2016	38,446	–	38,446

(2) Derecognition of $2.2 million relates to fully amortized intangible assets no longer in use.

16.
Other Assets

	March 31, 2017	March 31, 2016
Financial instruments		
Interest receivable on derivatives	**967**	1,407
Accounts receivable from Advisory Services clients	**1,375**	1,583
Other	**3,889**	6,360
	6,231	9,350
Prepaids	**8,384**	4,947
Other assets	**14,615**	14,297

(in thousands of Canadian dollars)

17.
Accounts Payable and Accrued Liabilities

	March 31, 2017	March 31, 2016
Current		
Salaries and benefits payable	**56,552**	44,912
Accounts payable	**6,067**	2,007
Other	**19,085**	17,791
	81,704	64,710
Long-term accrued liabilities	**37,331**	32,256
Accounts payable and accrued liabilities	**119,035**	96,966

18.
Borrowings

The table below presents the outstanding short-term notes.

				March 31, 2017		March 31, 2016
Maturity date	Effective rate	Currency	Principal amount (1)	Carrying value	Principal amount (1)	Carrying value
Short-term notes						
2017	0.42% - 0.44%	CAD			16,844,000	16,847,175
	0.13%	USD			667	866
2018	0.38% - 0.45%	CAD	**18,805,000**	**18,808,311**		
	0.70%	USD	**844**	**1,125**		
Total short-term notes				**18,809,436**		16,848,041

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

(in thousands of Canadian dollars)

18. Borrowings (continued)

The table below presents the outstanding long-term notes by maturity. Some long-term notes may be redeemable. As at March 31, 2017, long-term notes of $4,856 were redeemable prior to maturity ($4,840 as at March 31, 2016).

				March 31, 2017		March 31, 2016	
Maturity date	2017 Effective rate (1)	2016 Effective rate (1)	Currency	Principal amount (2)	Carrying value	Principal amount (2)	Carrying value
Long-term notes/ financial liabilities							
2017		0.45% - 1.12%	CAD			92,500	92,746
2018	0.55%	0.55%	CAD	**5,600**	**5,606**	5,600	5,606
					5,606		98,352
Long-term notes/ designated as at fair value through profit or loss							
2018	0.65%	0.64%	JPY	**1,000,000**	**12,322**	1,000,000	12,022
2021	0.63% - 0.64%	0.60% - 0.62%	JPY	**660,000**	**7,963**	660,000	8,043
2022	0.53% - 3.98%	0.52% - 2.62%	CAD	**124,139**	**141,500**	195,988	231,851
					161,785		251,916
Total long-term notes					**167,391**		350,268

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

The total carrying value of the long-term notes designated as at fair value through profit or loss as at March 31, 2017, was $19,517 higher than the total principal amount due at maturity, given respective exchange rates (as at March 31, 2016, it was $37,799 higher).

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

	March 31, 2017	March 31, 2016
Interest-bearing notes	**147,106**	330,203
Notes linked to currency rates	**12,322**	12,022
Other structured notes	**7,963**	8,043
Total long-term notes	**167,391**	350,268

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 2018 for the registered pension plan is $32.4 million. The supplemental pension plans are partly funded by BDC and BDC's best estimate of contributions for fiscal 2018 is $7.2 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 2018 amount to $6.2 million.

(in thousands of Canadian dollars)

19. Net Defined Benefit Asset or Liability (continued)

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

	Registered pension plan		Supplemental pension plans		Other plans		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Fair value of plan assets at beginning of year	**1,296,096**	1,305,953	**60,541**	61,218	**–**	–	**1,356,637**	1,367,171
Interest income	**51,961**	49,956	**2,541**	2,408	**–**	–	**54,502**	52,364
Employer contributions	**28,363**	44,709	**6,649**	5,616	**–**	–	**35,012**	50,325
Participant contributions	**19,331**	14,794	**–**	–	**–**	–	**19,331**	14,794
Benefit payments from plan	**(40,561)**	(40,894)	**(3,845)**	(3,957)	**–**	–	**(44,406)**	(44,851)
Administrative expenses paid from plan assets	**(1,290)**	(1,250)	**(139)**	(146)	**–**	–	**(1,429)**	(1,396)
Remeasurements								
Return on plan assets (excluding interest income)	**98,748**	(77,172)	**3,964**	(4,598)	**–**	–	**102,712**	(81,770)
Fair value of plan assets at end of year	**1,452,648**	1,296,096	**69,711**	60,541	**–**	–	**1,522,359**	1,356,637
Defined benefit obligation at beginning of year	**1,242,101**	1,205,524	**119,093**	117,569	**159,444**	163,313	**1,520,638**	1,486,406
Current service cost	**42,748**	47,315	**3,193**	3,156	**6,555**	6,596	**52,496**	57,067
Interest expense	**48,873**	45,033	**4,686**	4,392	**6,260**	6,076	**59,819**	55,501
Benefit payments from plan	**(40,561)**	(40,894)	**(3,845)**	(3,960)	**–**	–	**(44,406)**	(44,854)
Benefit payments from employer	**–**	–	**–**	–	**(5,027)**	(6,037)	**(5,027)**	(6,037)
Participant contributions	**19,331**	14,794	**–**	–	**–**	–	**19,331**	14,794
Remeasurements								
Effect of changes in demographic assumptions	**–**	–	**–**	–	**2,052**	(5,706)	**2,052**	(5,706)
Effect of changes in financial assumptions	**22,137**	(37,233)	**2,109**	(3,918)	**2,749**	(5,220)	**26,995**	(46,371)
Effect of experience adjustments	**(3,079)**	7,562	**3,650**	1,854	**290**	422	**861**	9,838
Defined benefit obligation at end of year	**1,331,550**	1,242,101	**128,886**	119,093	**172,323**	159,444	**1,632,759**	1,520,638
Total net defined benefit asset	**121,098**	53,995	**–**	–	**–**	–	**121,098**	53,995
Total net defined benefit liability	**–**	–	**(59,175)**	(58,552)	**(172,323)**	(159,444)	**(231,498)**	(217,996)

(in thousands of Canadian dollars)

19. Net Defined Benefit Asset or Liability (continued)

	Registered pension plan		Supplemental pension plans		Other plans		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Expense recognized in net income								
Current service cost	**42,748**	47,315	**3,193**	3,156	**6,555**	6,596	**52,496**	57,067
Interest expense on defined benefit obligation	**48,873**	45,033	**4,686**	4,392	**6,260**	6,076	**59,819**	55,501
Interest income on plan assets	**(51,961)**	(49,956)	**(2,541)**	(2,408)	**–**	–	**(54,502)**	(52,364)
Administrative expenses	**1,290**	1,250	**139**	146	**–**	–	**1,429**	1,396
Expense recognized in net income	**40,950**	43,642	**5,477**	5,286	**12,815**	12,672	**59,242**	61,600
Remeasurements recognized in OCI								
Effect of changes in demographic assumptions	**–**	–	**–**	–	**(2,052)**	5,706	**(2,052)**	5,706
Effect of changes in financial assumptions	**(22,137)**	37,233	**(2,109)**	3,918	**(2,749)**	5,220	**(26,995)**	46,371
Effect of experience adjustments	**3,079**	(7,562)	**(3,650)**	(1,854)	**(290)**	(422)	**(861)**	(9,838)
Return on plan assets (excluding interest income)	**98,748**	(77,172)	**3,964**	(4,598)	**–**	–	**102,712**	(81,770)
Remeasurement gain (loss) recognized in OCI	**79,690**	(47,501)	**(1,795)**	(2,534)	**(5,091)**	10,504	**72,804**	(39,531)

(in thousands of Canadian dollars)

19. Net Defined Benefit Asset or Liability (continued)

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

			March 31, 2017			March 31, 2016
Investment type[1]	Quoted on active market	Unquoted	Total	Quoted on active market	Unquoted	Total
Cash	**31,056**	**–**	**31,056**	22,178	–	22,178
Short-term investments	**–**	**5,716**	**5,716**	–	12,672	12,672
Bonds						
Government of Canada	**–**	**314,045**	**314,045**	–	279,944	279,944
Canadian provinces	**–**	**185,244**	**185,244**	–	165,473	165,473
Canadian corporate and municipal	**–**	**63,094**	**63,094**	–	59,253	59,253
Equity investments						
Canadian equity	**155,432**	**117,435**	**272,867**	207,422	112,492	319,914
Global equity	**492,129**	**46,802**	**538,931**	169,748	230,195	399,943
Private market	**–**	**78,507**	**78,507**	–	67,029	67,029
Other	**–**	**32,899**	**32,899**	–	30,231	30,231
Fair value of plan assets	**678,617**	**843,742**	**1,522,359**	399,348	957,289	1,356,637

(1) The investment type categories have been modified to better reflect the target asset mix in the investment policy. Comparative figures were adjusted accordingly.

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% (40% in 2016) of the fair market value of the portfolio. The target for investments in equity should represent approximately 53.5% (54.5% in 2016) of the fair market value of the portfolio: 30% in global equity (30% in 2016) and 23.5% in Canadian equity (24.5% in 2016). The target for private market investments should represent approximately 6.5% (5.5% in 2016) 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)

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	
	2017	2016	**2017**	2016	**2017**	2016
Discount rate	**3.90%**	4.00%	**3.90%**	4.00%	**3.90%**	4.00%
Inflation rate	**2.00%**	2.00%	**2.00%**	2.00%	**2.00%**	2.00%
Rate of salary increase	**3.00%**	3.00%	**3.00%**	3.00%	**3.00%**	3.00%
Rate of pension increase	**2.00%**	2.00%	**2.00%**	2.00%	**n/a**	n/a

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

The following mortality table has been 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 2016 and 2017.

As at March 31, 2017, the weighted-average duration of the defined benefit obligation was 17.3 years (in 2016, it was 18.6 years).

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

Medical (drugs)
> 6.0% in 2017, reducing by 0.125% each year to 4% in 2033
(6.125% in 2016, reducing by 0.125% each year to 4% in 2033)

Other medical costs
> 3.8% per year
(3.8% per year in fiscal 2016)

Dental costs
> 4% per year
(4% per year in fiscal 2016)

Weighted average health care trend
> 4.8% in 2017, reducing by 0.056% each year to 3.9% in 2033
(4.8% in 2016, reducing by 0.053% each year to 3.9% in 2033)

(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, 2017			March 31, 2016
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	**(194,851)**	**(18,246)**	**(24,711)**	(204,854)	(17,170)	(22,567)
1% decrease	**259,143**	**24,442**	**31,737**	277,251	23,180	28,950
Rate of salary increase						
Impact of: 1% increase	**31,048**	**11,040**	**689**	28,315	10,482	716
1% decrease	**(30,982)**	**(6,762)**	**(645)**	(28,443)	(6,319)	(668)
Rate of price inflation						
Impact of: 1% increase	**237,504**	**18,654**	**1,104**	256,886	17,984	1,090
1% decrease	**(183,536)**	**(14,378)**	**(964)**	(195,312)	(13,853)	(955)
Rate of pension increase						
Impact of: 1% increase	**193,115**	**21,752**	**–**	214,122	21,192	–
1% decrease	**(153,387)**	**(16,377)**	**–**	(167,199)	(15,701)	–
Health care cost trend						
Impact of: 1% increase	**–**	**–**	**24,775**	–	–	22,368
1% decrease	**–**	**–**	**(19,707)**	–	–	(17,825)
Post-retirement mortality						
Impact of: 1 year older	**(31,163)**	**(3,360)**	**(5,052)**	(28,580)	(3,018)	(4,534)
1 year younger	**30,990**	**3,329**	**5,154**	28,431	2,995	4,631

(in thousands of Canadian dollars)

20.
Other Liabilities

	March 31, 2017	March 31, 2016
Financial instruments		
Deposits from clients	**36,812**	26,945
Other[1]	**1,974**	1,963
	38,786	28,908
Deferred income	**6,620**	6,409
Other[1]	**2,915**	3,719
Total other liabilities	**48,321**	39,036

(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, 2017, there were 24,134,000 common shares outstanding (22,884,000 as at March 31, 2016).

According to the new Capital Management and Dividend Policy, no dividend was declared, based on fiscal 2017 results. Refer to Note 22—*Capital Management* for more information on the new policy. A dividend in respect of common shares of $68.6 million was paid in fiscal 2017 based on fiscal 2016 results.

In fiscal 2017, 1,250,000 common shares for $125.0 million were issued by BDC (1,500,000 for $150.0 million in 2016).

Reconciliation of the number of common shares issued and outstanding

	2017	2016
As at beginning of the year	**22,884,000**	21,384,000
Shares issued	**1,250,000**	1,500,000
As at end of the year	**24,134,000**	22,884,000

22.
Capital Management

Statutory limitations

As per the BDC Act, the debt-to-equity ratio of BDC may not exceed 12:1. This ratio is defined as the aggregate of borrowings recognized in the Consolidated Statement of Financial Position and contingent liabilities that exist in the form of financial guarantees issued by BDC over equity attributable to BDC's shareholder, which excludes accumulated other comprehensive income. BDC's ratio as at March 31, 2017, was 3.2:1 (3.2:1 as at March 31, 2016).

In addition, the paid-in capital, the contributed surplus and any proceeds that have been prescribed as equity (such as hybrid capital instruments) must not at any time exceed $3.0 billion. As at March 31, 2017, these amounts totalled $2.4 billion ($2.3 billion as at March 31, 2016).

During fiscal 2017 and 2016, BDC met both of these statutory limitations.

Capital adequacy

BDC's Capital Management Framework is based on its Internal Capital Adequacy Assessment Process (ICAAP), which is derived from OSFI E-19 ICAAP guidelines and is aligned with the new Capital and Dividend Policy Framework for Financial Crown Corporations being implemented by the Minister of Finance, supported by the President of the Treasury Board of Canada Secretariat (Treasury Board). Starting March 23, 2017, the application of this new Capital and Dividend Policy Framework replaces Treasury Board Decision #823988, which prescribed minimum capital adequacy ratios for BDC. These minimum capital ratios were met during fiscal 2016 and 2017, until the abovementioned date of release.

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

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

> capital in excess of target capital should be returned to the shareholder in the form of dividends.

BDC's ICAAP excludes the Venture Capital Action Plan (VCAP), as this program is managed by BDC under a specific capital allocation from the shareholder.

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

Available capital based on BDC's ICAAP is composed of equity attributable to BDC's shareholder and adjustments aligned with industry practices. These adjustments were refined in fiscal 2017 to reflect Basel III requirements. As a result, intangible assets are now deducted from available capital and only a portion of the allowance for credit losses is considered. These changes are applied prospectively.

(in thousands of Canadian dollars)

22. Capital Management (continued)

Capital adequacy (continued)

The following table presents BDC's available capital reconciliation:

Equity attributable to BDC's shareholder	5,917,500
Adjustments to available capital	
AOCI on cash flow hedges	(3,421)
Adjustments for allowance for credit losses	114,250
Intangible assets, net of accumulated amortization	(33,148)
Portion of equity attributable to VCAP	(332,691)
Available capital as at March 31, 2017	**5,662,490**
Available capital as at March 31, 2016[1]	5,513,095

(1) As a result of different risk assessment methodologies, available capital based on BDC's ICAAP differs from available capital for the purpose of capital adequacy as per Treasury Board guidelines of $5,266,623, which was presented in last year's Consolidated Financial Statements.

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

> Economic Capital quantifies the capital required to cover credit, operational, strategic and market risks,

> Stress Testing Reserve serves to absorb the volatility of an economic downturn while maintaining BDC's financial strength,

> Venture Capital Reserve is held to account for the need for follow-on investments.

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

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

23.
Risk Management

Governance

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

Nature and extent of risks arising from financial instruments

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

Credit risk

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

<u>Asset-backed securities issuers</u>

The asset-backed securities (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 face 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 note investments 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, 2017, and March 31, 2016, none of the notes were past due and none had suffered 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 9—*Asset-Backed Securities*, for additional information on this portfolio.

23. Risk Management (continued)

Credit risk (continued)

Borrowers and investees

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

> the use of an internal credit risk rating classification;

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

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

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

> 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, subordinate financing investments and venture capital investments in debentures. Refer to Note 10—*Loans*, Note 11—*Subordinate Financing Investments*, Note 12—*Venture Capital Investments* and Note 13—*Venture Capital Action Plan Investments* for additional information on loans and investment portfolios.

BDC is also exposed to credit risk on its loan commitments and financial guarantees. Maximum exposure to credit risk is limited to the committed amount or, in the case of financial guarantees, to the maximum amount payable under the guarantees. Refer to Note 26—*Guarantees and Contingent Liabilities* and Note 27—*Commitments* for additional information.

(in thousands of Canadian dollars)

23. Risk Management (continued)

Credit risk (continued)

Counterparties to treasury activities

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

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

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, 2017, and March 31, 2016, BDC had no significant concentrations in any individual financial institution.

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

Counterparty credit risk exposure	Counterparty ratings			
	AA- to AA+	A- to A+	BBB to BBB+	Total
Gross positive replacement cost	11,356	9,377	599	21,332
Impact of master netting agreements	–	(1,789)	–	(1,789)
Replacement cost (after master netting agreements) – March 31, 2017	**11,356**	**7,588**	**599**	**19,543**
Replacement cost (after master netting agreements) – March 31, 2016	26,112	20,754	744	47,610
Number of counterparties				
March 31, 2017	**2**	**6**	**1**	**9**
March 31, 2016	2	6	1	9

Finally, 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.

23. Risk Management (continued)

Market risk

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

Interest rate risk

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

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%. As at March 31, 2017, the impact was 1% or $14 million on net income and equity (3% or $24 million as at March 31, 2016).

(in thousands of Canadian dollars)

23. Risk Management (continued)

Market risk (continued)

Interest rate risk (continued)

The following tables summarize BDC's interest rate sensitivity position based on the difference between the carrying value of assets and the carrying value of liabilities and equity, grouped by the earlier of contractual repricing or maturity date. The effective yield represents the weighted-average effective yield based on 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.

Canadian dollar transactions

	Floating rate	Within 3 months[2]	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive[3]	Allowance and fair value	Total
Assets								
Cash (overdrawn) and cash equivalents	**(2,546)**	**649,277**						**646,731**
Effective yield (%)		***0.84***						
Derivative assets		**18,764**						**18,764**
Asset-backed securities				**53,101**	**461,041**			**514,142**
Effective yield (%)				***1.80***	***1.69***			
Loans	**16,219,104**	**277,441**	**657,270**	**2,950,368**	**1,333,557**	**705,456**	**(687,475)**	**21,455,721**
Effective yield (%)	***4.86***	***4.60***	***4.73***	***4.47***	***4.47***			
Subordinate financing investments	**342,648**	**8,031**	**43,017**	**299,460**	**26,111**	**149,387**	**(34,030)**	**834,624**
Effective yield[1] (%)	***9.85***	***9.08***	***9.56***	***9.77***	***11.79***			
Venture capital investments						**493,781**	**49,673**	**543,454**
Venture capital action plan investments						**287,891**	**11,292**	**299,183**
Other						**197,964**		**197,964**
	16,559,206	**953,513**	**700,287**	**3,302,929**	**1,820,709**	**1,834,479**	**(660,540)**	**24,510,583**
Liabilities and equity								
Derivative liabilities			**1,709**					**1,709**
Short-term notes		**18,808,311**						**18,808,311**
Effective yield (%)		***0.43***						
Long-term notes			**5,606**	**141,500**				**147,106**
Effective yield (%)			***0.55***	***2.32***				
Other						**398,111**		**398,111**
Total equity						**5,939,295**		**5,939,295**
	–	**18,808,311**	**7,315**	**141,500**	**–**	**6,337,406**	**–**	**25,294,532**
Total gap position before derivatives								
March 31, 2017	**16,559,206**	**(17,854,798)**	**692,972**	**3,161,429**	**1,820,709**	**(4,502,927)**	**(660,540)**	**(783,949)**
March 31, 2016	15,448,280	(15,833,601)	653,801	2,758,570	1,188,784	(4,271,363)	(547,477)	(603,006)
Total derivative position		(64,139)	(60,000)	124,139				–
Total gap position March 31, 2017	**16,559,206**	**(17,918,937)**	**632,972**	**3,285,568**	**1,820,709**	**(4,502,927)**	**(660,540)**	**(783,949)**
Total gap position March 31, 2016	15,448,280	(16,054,589)	668,801	2,768,570	1,384,772	(4,271,363)	(547,477)	(603,006)

(1) Excludes non-interest return.
(2) 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.
(3) 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)

Interest rate risk (continued)

Foreign currency transactions, expressed in Canadian dollars

	Floating rate	Within 3 months[2]	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive[3]	Allowance and fair value	Total
Assets								
Cash and cash equivalents	**2,437**							**2,437**
Derivative assets		**1,998**				**570**		**2,568**
Asset-backed securities					**3,946**			**3,946**
Effective yield (%)					***3.47***			
Loans	**166,564**	**119,482**		**7,311**		**12,840**	**(9,407)**	**296,790**
Effective yield (%)	***4.58***	***3.42***		***4.72***				
Subordinate financing investments	**24,259**						**1,565**	**25,824**
Effective yield[1] (%)	***10.29***							
Venture capital investments						**391,122**	**81,137**	**472,259**
Venture capital action plan investments						**3,289**	**(931)**	**2,358**
	193,260	**121,480**	**–**	**7,311**	**3,946**	**407,821**	**72,364**	**806,182**
Liabilities and equity								
Derivative liabilities						**80**		**80**
Short-term notes		**1,125**						**1,125**
Effective yield (%)		***0.70***						
Long-term notes			**12,322**	**7,963**				**20,285**
Effective yield (%)			***0.65***	***0.63***				
Other						**743**		**743**
	–	**1,125**	**12,322**	**7,963**	**–**	**823**	**–**	**22,233**
Total gap position before derivatives								
March 31, 2017	**193,260**	**120,355**	**(12,322)**	**(652)**	**3,946**	**406,998**	**72,364**	**783,949**
March 31, 2016	218,599	24,784	2,233	(13,889)	–	334,660	36,619	603,006
Total derivative position	–	(18,129)	10,875	7,254	–	–	–	–
Total gap position March 31, 2017	**193,260**	**102,226**	**(1,447)**	**6,602**	**3,946**	**406,998**	**72,364**	**783,949**
Total gap position March 31, 2016	218,599	6,655	2,233	4,240	–	334,660	36,619	603,006

(1) Excludes non-interest return.
(2) 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.
(3) 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)

Interest rate risk (continued)

Total transactions, expressed in Canadian dollars

	Floating rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non-rate-sensitive	Allowance and fair value	Total
Total gap position for Canadian dollar transactions	**16,559,206**	**(17,918,937)**	**632,972**	**3,285,568**	**1,820,709**	**(4,502,927)**	**(660,540)**	**(783,949)**
Total gap position for foreign currency transactions	**193,260**	**102,226**	**(1,447)**	**6,602**	**3,946**	**406,998**	**72,364**	**783,949**
Total gap position March 31, 2017	**16,752,466**	**(17,816,711)**	**631,525**	**3,292,170**	**1,824,655**	**(4,095,929)**	**(588,176)**	**–**
Total gap position March 31, 2016	15,666,879	(16,047,934)	671,034	2,772,810	1,384,772	(3,936,703)	(510,858)	–

Foreign exchange risk

Foreign exchange risk arises when there is a difference between assets and liabilities held in foreign currencies. Foreign exchange risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. BDC's policy and practice are to economically hedge borrowings, subordinate financing investments and loans in foreign currencies so that the residual exposure to foreign exchange risk is not significant. Venture capital investments are hedged following the occurrence of a liquidity event. Refer to Note 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 and venture capital action plan investments by applying conservative valuations when purchasing participation in a company, co-investing with other venture capital investors and monitoring investments regularly.

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

Liquidity risk

Liquidity risk is the risk resulting from the difficulty in converting BDC's asset 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.

(in thousands of Canadian dollars)

23. Risk Management (continued)

Liquidity risk (continued)

The following tables present 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	**81,704**	**37,331**			**119,035**
Derivative liabilities[1]	**2,501**				**2,501**
Short-term notes[2]	**18,806,582**				**18,806,582**
Long-term notes[2]	**54,648**	**260,983**			**315,631**
Other financial liabilities	**38,786**				**38,786**
Commitments					
Loans	**2,861,028**				**2,861,028**
Subordinate financing investments	**79,603**				**79,603**
Venture capital investments[3]				**345,102**	**345,102**
Venture capital action plan investments[3]				**99,178**	**99,178**
Asset-backed securities	**427,000**				**427,000**
Guarantees	**341,754**				**341,754**
Total as at March 31, 2017	**22,693,606**	**298,314**	**–**	**444,280**	**23,436,200**

	Within 1 year	1 to 5 years	Over 5 years	No fixed maturity	Total
Accounts payable and accrued liabilities	64,710	32,256			96,966
Derivative liabilities[1]	2,501	2,501			5,002
Short-term notes[2]	16,875,926				16,875,926
Long-term notes[2]	152,578	252,037	224,398		629,013
Other financial liabilities	28,908				28,908
Commitments					
Loans	2,250,670				2,250,670
Subordinate financing investments	72,316				72,316
Venture capital investments[3]				360,069	360,069
Venture capital action plan investments[3]				252,254	252,254
Asset-backed securities	297,000				297,000
Guarantees	352,406				352,406
Total as at March 31, 2016	20,097,015	286,794	224,398	612,323	21,220,530

(1) Derivative liabilities reflect the interest payments to maturity of derivatives.
(2) Short-term and long-term notes reflect the notional amount that will be paid as per the contractual note agreements.
(3) Commitments are mainly related to participation in funds in which BDC legally committed to invest. Timing of investments will vary, depending on funds' investment requirements, and should occur over the next several years.

23. Risk Management (continued)

Liquidity risk (continued)

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

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

> providing for a minimum level of short-term assets over short-term liabilities to cover commitment, market, systemic and operational risks;

> minimizing the unproductive cash balance in the cash account; and

> achieving a return on liquid assets in excess of cost while protecting BDC's capital.

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

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

> The minimum liquidity level covers at least the net outflows scheduled for the next five working days. The maximum liquidity level is not to exceed 15 days of net cash outflows.

> The maturity profile requires 75% of the total liquidity to be invested in securities maturing within 100 days.

> The concentration profile requires that no more than 50% of the portfolio be invested in securities issued or guaranteed by Canadian provinces.

The cash and cash equivalents received from derivative counterparties to cover credit risk exposure as per the Credit Support Annex of the International Swap and Derivatives Association agreements are not included in the liquidity level and limits. As of March 31, 2017, the carrying amount of these collaterals was $1,125 ($866 at March 31, 2016).

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, 2017	**159**	**650**	**1,189**
As at March 31, 2016	162	650	1,355

Maturity and concentration limits	Limits	**March 31, 2017**	March 31, 2016
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

Additional information on financial instruments

	FVTPL(1)		Other financial instrument classification		Total	
	2017	2016	**2017**	2016	**2017**	2016
Interest income(2)	**75,550**	63,097	**1,094,026**	1,028,800	**1,169,576**	1,091,897
Interest expense	**3,036**	3,603	**76,399**	71,953	**79,435**	75,556
Fee and other income	**30,637**	31,588	**23,466**	16,967	**54,103**	48,555

(1) Fair value through profit or loss.
(2) Interest income includes $37,875 for impaired loans in 2017 ($32,637 in 2016).

2017

	FVTPL(1)						
	Held-for-trading	Designated as at FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Other financial liabilities	Total
Total gains (losses)							
Net realized gains (losses) on investments	**–**	**6,744**	**–**	**–**	**–**	**–**	**6,744**
Net realized gains (losses) on other financial instruments	**(11)**	**1,996**	**–**	**407**	**–**	**–**	**2,392**
Net change in unrealized appreciation (depreciation) of investments	**–**	**2,940**	**(43)**	**–**	**–**	**–**	**2,897**
Net unrealized foreign exchange gains (losses) on investments	**–**	**10,936**	**4**	**–**	**–**	**–**	**10,940**
Net unrealized gains (losses) on other financial instruments	**(19,566)**	**18,533**	**35**	**(181)**	**–**	**(31)**	**(1,210)**
	(19,577)	**41,149**	**(4)**	**226**	**–**	**(31)**	**21,763**

2016

	FVTPL(1)						
	Held-for-trading	Designated as at FVTPL	Available-for-sale	Cash flow hedges	Loans and receivables	Other financial liabilities	Total
Total gains (losses)							
Net realized gains (losses) on investments	–	(5,991)	–	–	–	–	(5,991)
Net realized gains (losses) on other financial instruments	(72)	854	–	175	–	–	957
Net change in unrealized appreciation (depreciation) of investments	–	86,020	–	–	–	–	86,020
Net unrealized foreign exchange gains (losses) on investments	–	8,305	–	–	–	–	8,305
Net unrealized gains (losses) on other financial instruments	(6,838)	10,299	–	16	–	36	3,513
	(6,910)	99,487	–	191	–	36	92,804

(1) Fair value through profit or loss.

(in thousands of Canadian dollars)

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

Other additional information

	2017	2016
Salaries and benefits		
Salaries and other benefits	**312,175**	269,496
Defined benefit plan expense (Note 19)	**59,242**	61,600
	371,417	331,096
Other expenses		
Professional and outsourcing fees	**53,112**	37,123
Computers and software, including amortization and depreciation	**26,729**	29,296
Communications, advertising and promotion	**26,003**	15,749
Other	**24,351**	23,381
	130,195	105,549

25.
Segmented Information

BDC has six reportable segments, as described below, which are the Bank's business lines. 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.
- **Growth & Transition Capital** provides subordinate financing by way of flexible debt with or without convertible features and equity-type financing.
- **Venture Capital** provides investments to cover every stage of a technology-based company's development cycle, from seed funding to expansion. BDC also makes indirect investments via venture capital investment funds.
- **Advisory Services** (formerly known as BDC Advantage) provides consulting services, supports high-impact firms, and provides group programs and other services related to business activities.
- **Securitization** 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. BDC also provides fully secured loans to small- and medium-sized finance and leasing companies.
- **Venture Capital Action Plan** supports the creation of large private sector-led funds of funds and also assists existing high-performing funds in partnership with institutional investors, corporate strategic investors and interested provinces.

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.

(in thousands of Canadian dollars)

25. Segmented Information (continued)

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 internal capital adequacy assessment process 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 are managed separately based on BDC's business segments. None of the other assets or liabilities are managed by segment.

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

							March 31, 2017
	BDC	Financing	Growth & Transition Capital	Venture Capital	Advisory Services	Securitization	Venture Capital Action Plan
Interest income	**1,169,576**	**1,084,465**	**74,989**	**–**	**–**	**10,122**	**–**
Interest expense	**79,435**	**71,223**	**4,073**	**–**	**–**	**4,139**	**–**
Net interest income (expense)	**1,090,141**	**1,013,242**	**70,916**	**–**	**–**	**5,983**	**–**
Net realized gains (losses) on investments	**6,744**	**–**	**1,839**	**4,905**	**–**	**–**	**–**
Revenue from Advisory Services	**20,332**	**–**	**–**	**–**	**20,332**	**–**	**–**
Fee and other income	**54,103**	**23,258**	**25,967**	**4,469**	**103**	**251**	**55**
Net realized gains (losses) on other financial instruments	**2,392**	**2,403**	**–**	**(11)**	**–**	**–**	**–**
Net revenue (loss)	**1,173,712**	**1,038,903**	**98,722**	**9,363**	**20,435**	**6,234**	**55**
Provision for credit losses	**(179,545)**	**(179,545)**	**–**	**–**	**–**	**–**	**–**
Net change in unrealized appreciation (depreciation) of investments	**2,897**	**–**	**(17,819)**	**10,192**	**–**	**(8)**	**10,532**
Net unrealized foreign exchange gains (losses) on investments	**10,940**	**–**	**–**	**10,870**	**–**	**4**	**66**
Net unrealized gains (losses) on other financial instruments	**(1,210)**	**(1,110)**	**–**	**(137)**	**–**	**37**	**–**
Income (loss) before operating and administrative expenses	**1,006,794**	**858,248**	**80,903**	**30,288**	**20,435**	**6,267**	**10,653**
Salaries and benefits	**371,417**	**276,545**	**31,576**	**17,746**	**42,832**	**2,251**	**467**
Premises and equipment	**40,366**	**32,617**	**1,649**	**1,810**	**4,088**	**148**	**54**
Other expenses	**130,195**	**102,070**	**3,047**	**5,505**	**19,299**	**217**	**57**
Operating and administrative expenses	**541,978**	**411,232**	**36,272**	**25,061**	**66,219**	**2,616**	**578**
Net income (loss)	**464,816**	**447,016**	**44,631**	**5,227**	**(45,784)**	**3,651**	**10,075**
Net income (loss) attributable to:							
BDC's shareholder	**465,974**	**447,016**	**44,371**	**6,645**	**(45,784)**	**3,651**	**10,075**
Non-controlling interests	**(1,158)**	**–**	**260**	**(1,418)**	**–**	**–**	**–**
Net income (loss)	**464,816**	**447,016**	**44,631**	**5,227**	**(45,784)**	**3,651**	**10,075**
Business segment portfolio as at March 31[(1)]	**24,448,301**	**21,706,109**	**860,448**	**1,015,713**	**–**	**564,490**	**301,541**

(1) Securitization's portfolio at the end of the period included $46,402 in loans and $518,088 in asset-backed securities.

(in thousands of Canadian dollars)

25. Segmented Information (continued)

March 31, 2016

	BDC	Financing	Growth & Transition Capital	Venture Capital	Advisory Services	Securitization	Venture Capital Action Plan
Interest income	1,091,897	1,020,092	62,717	–	–	9,088	–
Interest expense	75,556	66,918	4,615	–	–	4,023	–
Net interest income (expense)	1,016,341	953,174	58,102	–	–	5,065	–
Net realized gains (losses) on investments	(5,991)	–	394	(6,385)	–	–	–
Revenue from Advisory Services	16,402	–	–	–	16,402	–	–
Fee and other income	48,555	16,673	26,922	3,914	351	357	338
Net realized gains (losses) on other financial instruments	957	1,029	–	(72)	–	–	–
Net revenue (loss)	1,076,264	970,876	85,418	(2,543)	16,753	5,422	338
Provision for credit losses	(160,909)	(160,909)	–	–	–	–	–
Net change in unrealized appreciation (depreciation) of investments	86,020	–	475	81,619	–	(32)	3,958
Net unrealized foreign exchange gains (losses) on investments	8,305	–	–	8,376	–	–	(71)
Net unrealized gains (losses) on other financial instruments	3,513	3,287	–	226	–	–	–
Income (loss) before operating and administrative expenses	1,013,193	813,254	85,893	87,678	16,753	5,390	4,225
Salaries and benefits	331,096	254,249	27,434	14,323	32,355	1,916	819
Premises and equipment	38,817	32,674	1,742	1,774	2,456	117	54
Other expenses	105,549	84,537	3,020	4,141	13,511	272	68
Operating and administrative expenses	475,462	371,460	32,196	20,238	48,322	2,305	941
Net income (loss)	537,731	441,794	53,697	67,440	(31,569)	3,085	3,284
Net income (loss) attributable to:							
BDC's shareholder	535,448	441,794	49,162	69,692	(31,569)	3,085	3,284
Non-controlling interests	2,283	–	4,535	(2,252)	–	–	–
Net income (loss)	537,731	441,794	53,697	67,440	(31,569)	3,085	3,284
Business segment portfolio as at March 31(1)	22,044,536	19,703,039	751,404	928,000	–	524,425	137,668

(1) Securitization's portfolio at the end of the period included $14,667 in loans and $509,758 in asset-backed securities.

26.

Guarantees and Contingent Liabilities

Financial guarantees

Guarantees

BDC issues "letters of credit, loan guarantees and portfolio guarantees" (guarantees) to support businesses. Those guarantees represent BDC's obligation to make payments to third parties if clients are unable to meet their contractual commitments. Collateral requirements for guarantees are consistent with BDC collateral requirements for loans. The fee income earned is calculated on a straight-line basis over the life of the instrument and recognized in fee and other income in the Consolidated Statement of Income. The maximum contractual obligation under the guarantees totalled $341.8 million as at March 31, 2017 ($352.4 million as at March 31, 2016) and the existing terms expire within 151 months (within 163 months as at March 31, 2016). However, the actual exposure as at March 31, 2017, was $41.7 million ($17.8 million as at March 31, 2016).

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, 2017, and March 31, 2016, there were no liabilities recognized in BDC's Consolidated Statement of Financial Position related to these guarantees.

Indemnification agreements

In the ordinary course of business, BDC enters into many contracts that contain indemnification provisions, such as purchase contracts, employment contracts, service agreements and leasing arrangements. In such contracts, BDC may indemnify counterparties to the contracts for certain aspects of BDC's past conduct if other parties fail to perform, or if certain events occur, such as changes in laws and regulations (including tax legislation), changes in the financial condition of third parties, infringements and breaches of representations and warranties, undisclosed liabilities, and loss caused by the actions of third parties, or as a result of litigation claims by third parties.

These indemnification obligations will 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 will trigger payment under them is difficult to predict. The nature of these indemnification contracts is such that BDC cannot reasonably estimate the maximum potential future amount that may be payable to counterparties. Historically, BDC has not made any significant payments under these indemnities and there were no significant provisions for indemnities as of March 31, 2017, and March 31, 2016.

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.

(in thousands of Canadian dollars)

27.
Commitments

Loans and investments

Loans

Undisbursed amounts of authorized loans were $2,861,028 as at March 31, 2017 ($539,411 fixed rate; $2,321,617 floating rate) and are expected to be disbursed within the next 12 months. The weighted-average effective interest rate was 4.3% on loan commitments (4.4% as at March 31, 2016). The following tables present undisbursed amounts of authorized loans by location and industry.

Commitments, by geographic distribution	March 31, 2017	March 31, 2016
Newfoundland and Labrador	**69,330**	63,612
Prince Edward Island	**447**	544
Nova Scotia	**36,820**	34,865
New Brunswick	**38,899**	19,884
Quebec	**830,057**	545,850
Ontario	**730,349**	685,774
Manitoba	**128,287**	55,091
Saskatchewan	**47,707**	53,655
Alberta	**650,029**	546,708
British Columbia	**320,360**	240,861
Yukon	**6,003**	1,298
Northwest Territories and Nunavut	**2,740**	2,528
Total	**2,861,028**	2,250,670

Commitments, by industry sector	March 31, 2017	March 31, 2016
Manufacturing	**811,767**	572,285
Resources	**352,548**	258,051
Wholesale and retail trade	**343,864**	291,608
Service industries	**343,336**	229,252
Tourism	**297,127**	278,287
Construction	**267,307**	268,499
Transportation and storage	**152,138**	172,942
Commercial properties	**144,257**	70,284
Other	**148,684**	109,462
Total	**2,861,028**	2,250,670

Subordinate financing investments

Undisbursed amounts of authorized subordinate financing investments were $79,603 as at March 31, 2017 ($33,845 fixed rate; $45,758 floating rate) and are expected to be disbursed within the next 12 months. The weighted-average effective interest rate was 9.7% on subordinate financing commitments (10.8% as at March 31, 2016), excluding non-interest return. The following tables present undisbursed amounts of authorized subordinate financing investments, by location and industry.

Commitments, by geographic distribution	March 31, 2017	March 31, 2016
Newfoundland and Labrador	**209**	1,209
Nova Scotia	**2,000**	750
New Brunswick	**1,500**	–
Quebec	**15,471**	15,131
Ontario	**43,422**	35,571
Manitoba	**2,000**	–
Saskatchewan	**3,890**	–
Alberta	**2,950**	16,200
British Columbia	**8,161**	3,455
Total	**79,603**	72,316

(in thousands of Canadian dollars)

27. Commitments (continued)

Loans and investments (continued)

Subordinate financing investments (continued)

Commitments, by industry sector	March 31, 2017	March 31, 2016
Service industries	**25,856**	9,720
Manufacturing	**25,748**	28,796
Wholesale and retail trade	**12,090**	2,675
Information industries	**6,059**	8,425
Construction	**4,900**	1,650
Resources	**2,100**	14,750
Transportation and storage	**2,100**	2,400
Tourism	**750**	3,900
Total	**79,603**	72,316

Venture capital investments

Undisbursed amounts of authorized venture capital direct investments were related to the following industry sectors.

Commitments, by industry sector	March 31, 2017	March 31, 2016
Electronics	**3,884**	4,811
Biotechnology and pharmacology	**3,734**	16,030
Medical and health	**2,433**	4,000
Information technology	**1,702**	1,914
Industrial	**318**	–
Total	**12,071**	26,755

Undisbursed amounts of authorized venture capital funds were $333,031 as at March 31, 2017 ($333,314 as at March 31, 2016).

Venture capital action plan investments

Undisbursed amounts of authorized venture capital action plan investments were $99,178 as at March 31, 2017 ($252,254 as at March 31, 2016).

Asset-backed securities

Undisbursed amounts of authorized asset-backed securities were $427,000 as at March 31, 2017 ($297,000 as at March 31, 2016).

Intangible assets

As at March 31, 2017, and March 31, 2016, there were no significant contractual commitments to acquire systems and software.

Property and equipment

As at March 31, 2017, and March 31, 2016, there were no significant contractual commitments to acquire property and equipment.

(in thousands of Canadian dollars)

27. Commitments (continued)

Leases

BDC entered into a number of lease agreements to provide office space for its head office and business centres. BDC's future minimum lease payments and cost for services under operating leases related to the rental of premises are approximately as follows.

	March 31, 2017	March 31, 2016
Within 1 year	**29,290**	28,529
1 to 5 years	**95,222**	87,860
After 5 years	**203,979**	184,305
Total	**328,491**	300,694

During the year, lease payments recognized as an expense amounted to $27.7 million ($26.7 million in 2016). This amount consists of minimum lease payments. No significant sublease payments or contingent rent payments were made or received.

28.

Related Party Transactions

BDC is a Crown corporation that is wholly owned by the Government of Canada and is accountable for its affairs through the Minister of Innovation, Science and Economic Development. BDC is also related to all Government of Canada-created departments, agencies and Crown corporations. BDC enters into transactions with these entities in the normal course of business, under terms and conditions similar to those that apply to unrelated parties.

The defined benefit plans referred to in Note 19—*Net Defined Benefit Asset or Liability*, are also related parties. BDC's transactions with these funds include contributions paid to the plans, which are disclosed in Note 19. BDC has no other transactions or balances related to these defined benefit plans.

Borrowings with the Minister of Finance

During the reporting periods, BDC has borrowed funds from Her Majesty the Queen in Right of Canada acting through the Minister of Finance. This borrowing is in accordance with the FAA and the BDC Act and is compliant with (i) BDC's borrowing plan, which is approved by the Minister of Finance, and (ii) the Crown Borrowing Program Framework.

The following table presents 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	
	2017	2016	**2017**	2016	**2017**	2016
Balance at beginning of year	**16,846,936**	15,435,363	**98,352**	244,256	**16,945,288**	15,679,619
Net change in short-term notes	**1,961,000**	1,412,000	**–**	–	**1,961,000**	1,412,000
Net change in accrued interest	**375**	(427)	**(246)**	(304)	**129**	(731)
Issuance of long-term notes	**–**	–	**–**	–	**–**	–
Repayment of long-term notes	**–**	–	**(92,500)**	(145,600)	**(92,500)**	(145,600)
Balance at end of year	**18,808,311**	16,846,936	**5,606**	98,352	**18,813,917**	16,945,288

During the year, BDC recorded $81.7 million in interest expense related to these borrowings ($76.2 million in 2016). In addition, no borrowings with the Minister of Finance were repurchased in 2017 and 2016.

(in thousands of Canadian dollars)

28. Related Party Transactions (continued)

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 presents the compensation expense of key management personnel.

	2017	2016
Salaries and short-term employee benefits	**6,094**	4,529
Post-employment benefits	**1,306**	1,229
Other long-term benefits	**1,557**	827
Total	**8,957**	6,585

The following loans or investments were approved by BDC's Board of Directors. A member of the Board of Directors either owns an interest in, or is a director or officer of, BDC's client. Said board member disclosed his or her interest to the board, was not present when the loan or investment was discussed, and did not vote on the resolution of the Board of Directors to approve the related transaction.

Name of client	Amount of the loan or investment
TravelEdge ULC	270
Total	270

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.

29.

Comparative Figures

BDC has reviewed the cash flow presentation of disbursements for loans and repayments of loans. These were previously reported as two separate line items under operating activities in the Consolidated Statement of Cash Flows: disbursements for loans for an amount of $4,587,299 and repayments of loans for an amount of $3,153,764. To align with industry practice, and as permitted by IAS 7, BDC has opted to present these cash flows on a net basis, and to present them as Net change in loans under the changes in operating assets and liabilities section of operating activities. There is no impact on net cash flows provided by operating activities as the change in presentation was done within the same section of the Consolidated Statement of Cash Flows.

Corporate Governance

Committees	**124**
Board of Directors	**128**
Senior Management Team	**129**

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

Our principal guidelines derive from three documents. The *Business Development Bank of Canada Act* sets out BDC's purpose, powers and duties. The *Financial Administration Act* sets out the control and accountability regime for Crown corporations. Finally, BDC's bylaws prescribe the rules that govern the functioning of the Bank.

We look to 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 mandate, Board Code of Conduct and board committees' terms of reference define the board's corporate governance framework and its stewardship role, decision-making authority and accountability. The board is composed of dedicated, hard-working directors whose expertise, integrity and commitment to ethical business conduct transform principles into actions that build trust among our stakeholders. Together, our directors have the required mix of skills and experience needed for their stewardship role. They bring a diverse range of perspectives that helps us respond to our clients' goals and aspirations.

All board committees conduct in-depth reviews in their areas of responsibility and provide regular reports to the board. The board and its committees regularly assess their effectiveness and perform peer-to-peer evaluations. Except for the President and CEO, all board members are independent of management. The segregated roles and responsibilities of the Chairperson of the Board and the President and CEO reflect current best practices. Board members work very closely with senior management. They also hold regular *in camera* sessions in the absence of management and with heads of the risk oversight functions.

Risk governance

BDC's core challenge is to promote its role as a development bank that supports entrepreneurs—an inherently risky activity—while prudently managing risk and remaining financially sustainable. The board collaborates closely with management to instill and monitor an appropriate risk culture. BDC continues to refine its risk management framework. During the year, BDC hired a Chief Risk Officer to lead risk management and the risk oversight functions, and further define their scope and responsibilities.

Transparency and ethics

BDC's directors, executives and employees are committed to the highest standards of business ethics and corporate governance; our operations and activities are characterized by an open and ethical governance culture. The Board Code of Conduct and the Employee Code of Conduct, Ethics and Values provide ethical guidance at all levels of our organization. They are reinforced by policies on personal trading, disclosure of wrongdoing, anti-fraud, anti-money laundering and anti-terrorism financing. Robust processes are in place to manage conflicts of interest.

Every year, directors and employees declare that they have read, understood and complied with our codes of conduct.

Government oversight

Every year, Parliament receives an update on BDC's five-year Corporate Plan, which has been approved by the board, Treasury Board of Canada Secretariat, and the Minister of Innovation, Science and Economic Development. Parliament also receives BDC's Annual Report. It contains our financial statements, which have been audited by both the Auditor General of Canada and an external audit firm.

The Auditor General of Canada does a special examination of BDC at least once every 10 years that goes beyond strictly financial issues to examine systems and practices related to economy, efficiency and effectiveness. BDC's next special examination is scheduled to start in the fall of 2017. At 10-year intervals, the Minister of Innovation, Science and Economic Development reviews the provisions and operation of the BDC Act, in consultation with the Minister of Finance. The most recent legislative review was completed in 2014.

Some Key Governance Highlights

During the year, the board focused on providing insight into risk governance and strategy. The Governance/Nominating Committee focused on the search for new board members under the shareholder's new recruitment process.

The board oversaw the ongoing transformation of Advisory Services, which piloted mentoring and advisory services for high impact firms. The board continued to monitor new trends in financing markets and the successful deployment of the Venture Capital Action Plan. It also implemented its rebranding and advertising strategy to enhance awareness of BDC's brand and reach more clients across Canada. As well, the corporate compliance function continued to implement its regulatory compliance framework in line with best practices.

The President and CEO, Michael Denham, focused on the priorities he had identified to our stakeholders: to develop innovative technological solutions to improve BDC's service delivery, enhance clients' ease of interaction with BDC and expedite loan approvals; to increase the number of BDC business centres across Canada so more account managers are closer to more clients; to stimulate innovation and encourage entrepreneurs to invest in technology; and to help more companies export and grow internationally.

Lastly, the board worked with the Minister of Innovation, Science and Economic Development to recommend potential board members. Sandra Bosela joined the board on June 15, 2016, and became a member of the Board Investment Committee and the Human Resources Committee, bringing extensive experience in the financial industry, primarily in private equity. She became the Chairperson, of the Board Investment Committee on December 6, 2016, and joined the Governance/Nominating Committee on the same date. Anne Whelan joined the board on June 18, 2016, bringing extensive entrepreneurial and venture capital experience. She joined the Board Investment Committee and the Audit Committee. These new board members replaced Eric Boyko and Bryan Hayward.

Board Mandate

The board is responsible for the following:

> approving BDC's strategic direction and Corporate Plan to meet its public policy mandate

> setting performance targets and monitoring progress

> approving the risk appetite framework, which includes the risk appetite statement, to ensure that BDC is identifying and managing its risks properly

> ensuring the highest standards of corporate governance

> establishing compensation policies and ensuring that they align 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 internal controls and management information systems

> overseeing communications and public disclosure

> overseeing BDC's pension plans, and establishing its funding policies and practices

> approving financing and investment activities beyond management's authority, and overseeing financial and consulting services

> ensuring the complementarity of BDC's market approach and activities

Committees

Audit Committee

Chairperson	Members
Michael Calyniuk	Nancy M. Laird Claude Mc Master Anne Whelan Rosemary Zigrossi
Number of meetings 6	

This committee promotes an overall corporate culture of quality financial reporting and ethical behaviour. Its main duties are as follows:

> review and advise the board on annual and quarterly financial statements before disclosure in accordance with accounting principles

> review the adequacy and effectiveness of the internal control framework, and, in particular, controls related to major accounting and financial reporting systems

> recommend the appointment and removal of, and succession planning for, the Chief Audit Executive

> oversee the activities and assess the performance of the Chief Audit Executive and the internal audit function

> give advice and recommendations about the appointments and terms of auditors and special examiners

> review the scope and terms of engagement of auditors and special examiners who report directly to the committee and are accountable to the board

> oversee the activities and assess the performance of external auditors

> oversee the activities of the corporate compliance function, including regulatory compliance, and assess its performance

> oversee capital management and capital adequacy

> oversee BDC's standards of integrity and conduct, including the process for disclosing wrongdoing and reports from the Ombudsman

> review directors' and officers' expenses

Board Risk Committee (BRC)

Chairperson	Members
Robert H. Pitfield	Michael Calyniuk Samuel L. Duboc Shahir Guindi Claude Mc Master
Number of meetings 16	

This committee's main duties are as follows:

- review and recommend to the board all strategies related to BDC's material financial offerings
- identify and manage BDC's principal financial, business and operational risks, and oversee the Bank's risk culture
- approve, monitor compliance with and assess the effectiveness of BDC's risk appetite statement, and the models and limits contained in it
- oversee the work of the Chief Risk Officer and the risk oversight functions
- regularly review the enterprise risk management policy and other policies concerning key risks, such as credit, market, strategic, reputational, operational and other principal risks
- review 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
- 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
Samuel L. Duboc	Sandra Bosela Michael Calyniuk Robert H. Pitfield Mary-Alice Vuicic
Number of meetings 7	

This committee helps the board fulfill its corporate governance oversight responsibilities. Its main duties are as follows:

- continually review best practices and regulations related to governance in Canada and, if necessary, recommend changes to BDC's approach
- annually review BDC's corporate governance policies, including the Board Code of Conduct, and the Employee Code of Conduct, Ethics and Values
- annually assess the board's compliance with these policies
- monitor procedures established to detect and manage potential conflicts of interest
- regularly review the mandates, structures and memberships of the board and its committees
- develop selection criteria for the President and CEO position
- recommend to the board, for the consideration of the Minister of Innovation, Science and Economic Development, the reappointment of the Chairperson of the Board, the President and CEO, and members
- retain a search firm to identify candidates for the positions of the Chairperson of the Board, the President and CEO, and members
- review and annually approve the list of skills directors require
- develop processes to assess the performance of the board, its committees and its members
- ensure that comprehensive director orientation and continuous training programs are in place

Human Resources Committee

Chairperson
Mary-Alice Vuicic

Members
Sandra Bosela
Shahir Guindi
Robert H. Pitfield

Number of meetings
7

This committee's main duties are as follows:

> assess the "tone at the top" established by senior management regarding integrity and ethics, and review policies for managing personnel effectively

> recommend the human resources strategy—including key human resources objectives, plans and workforce requirements—to the board

> review—and, if appropriate, recommend to the board for approval—any major organizational structure changes, including the CEO's and other committees' recommendations for appointments of senior management committee members, the Chief Audit Executive, the Chief Risk Officer and the Ombudsman

> assess the CEO's objectives, performance, evaluation and benefits

> review compensation for senior executives

> review and approve the design of compensation policies, programs and plans

> approve performance measures and metrics

> receive and examine actuarial evaluation reports and financial statements related to BDC pension plans, as well as recommend funding contributions

> ensure there is a valid succession plan in place for all critical positions, including the Chief Risk Officer and Chief Audit Executive

> assess human resources risks, such as those related to employee attraction, retention, engagement and performance

> recommend to the board funding and design changes to the pension plans

> monitor the funded status of the plans

> recommend the pension plan funds' financial statements to the board

> advise the board on investment strategies and the asset mix

Board Investment Committee (BIC)

Chairperson
Sandra Bosela

Members
Nancy M. Laird
Anne Whelan
Rosemary Zigrossi

Number of meetings
17

This committee's duties are as follows:

> regularly review the investment policy, and other policies and processes for investment activities

> review and assess all risks associated with investments and the management thereof

> review all strategies, guardrails and capital allocations for all material investment activities, including venture capital and private equity

> approve the business plans of the three venture capital internal funds, as well as investment strategies, the capital allocation and guardrails

> review strategic initiatives aimed at improving the venture capital ecosystem

> review and recommend delegations of authority

> monitor portfolio performance

> approve investments that exceed the delegated authorities of senior management

To see board committees' mandates, please go to www.bdc.ca.

Board and Board Committee Meetings and Attendance

	Board			Audit		BRC		Governance/ Nominating		Human Resources		BIC		Committee meetings		
Directors	Attendance	Total	%	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	Attendance	Total	%
Samuel L. Duboc[1]	8	8	100%	–	–	13	16	7	7	–	–	–	–	20	23	87%
Sandra Bosela[2]	6	6	100%	–	–	–	–	2	2	5	5	9	10	16	17	94%
Eric Boyko[3]	1	2	50%	2	2	–	–	–	–	–	–	3	5	5	7	71%
Michael Calyniuk	8	8	100%	6	6	16	16	7	7	–	–	–	–	29	29	100%
Michael Denham[4]	8	8	100%													
Shahir Guindi	8	8	100%	–	–	16	16	–	–	7	7	–	–	23	23	100%
Brian Hayward[5]	1	2	50%	1	2	1	4	–	–	–	–	–	–	2	6	33%
Nancy M. Laird[6]	8	8	100%	3	4	–	–	–	–	3	3	15	17	21	24	88%
Claude Mc Master[7]	8	8	100%	6	6	8	8	–	–	–	–	7	7	21	21	100%
Prashant Pathak[8]	7	8	88%	–	–	–	–	4	4	4	7	15	16	23	27	85%
Robert H. Pitfield	8	8	100%	–	–	14	16	6	7	7	7	–	–	27	30	90%
Mary-Alice Vuicic	7	8	88%	–	–	–	–	6	7	7	7	–	–	13	14	93%
Anne Whelan	4	6	67%	3	4	–	–	–	–	–	–	5	9	12	19	63%
Rosemary Zigrossi[9]	8	8	100%	4	4	–	–	–	–	3	4	15	17	22	25	88%

Attendance final summary fiscal 2017

(1) The Chairperson of the Board, Samuel L. Duboc, is a member of the Board Risk Committee and the Chairperson of the Governance/Nominating Committee. As Chairperson of the Board, he frequently attended meetings of other board committees during the year.

(2) Sandra Bosela was appointed Chairperson of the Board Investment Committee on December 6, 2016, replacing Prashant Pathak as Chairperson. Mr. Pathak remained a member of the committee. Ms. Bosela is also a member of the Human Resources Committee and the Governance/Nominating Committee.

(3) Eric Boyko reached the end of his term effective June 2016 and was replaced by Ms. Bosela on June 15, 2016.

(4) Michael Denham is BDC's President and CEO. He is not a member of any committee; however, he attends meetings regularly.

(5) Brian Hayward reached the end of his term effective June 2016 and was replaced by Anne Whelan on June 18, 2016.

(6) Nancy M. Laird transferred from the Human Resources Committee and was appointed to the Audit Committee effective July 26, 2016.

(7) Claude Mc Master was appointed to the Board Investment Committee as of June 18, 2016, and transferred from that committee to the Board Risk Committee effective August 29, 2016.

(8) Prashant Pathak resigned from the BDC Board of Directors on February 8, 2017.

(9) Rosemary Zigrossi transferred from the Human Resources Committee and was appointed to the Audit Committee effective July 26, 2016.

Note: Edward Gordon passed away in April 2016.

Board of Directors

(March 31, 2017)

Samuel L. Duboc
Chairperson
of the Board
BDC
Toronto, Ontario

President and CEO
Elkland Capital Inc.
Toronto, Ontario

Michael Denham
President and CEO
BDC
Montreal, Quebec

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

Shahir Guindi
Managing Partner
Osler, Hoskin &
Harcourt LLP
Montreal, Quebec

Nancy M. Laird
Corporate Director
Calgary, Alberta

Claude Mc Master
President and CEO
D-BOX
Technologies Inc.
Longueuil, Quebec

Robert H. Pitfield
Executive Chairman
of the Board
TravelEdge Group
Toronto, Ontario

Mary-Alice Vuicic
Chief Human Resources
Officer
Victoria's Secret –
L Brands
Columbus, Ohio

Anne Whelan
President and CEO
Seafair Capital Inc.
St. John's,
Newfoundland and
Labrador

Rosemary Zigrossi
President and CEO
Odaamis Inc.
Toronto, Ontario

To see BDC's directors' biographies, please go to www.bdc.ca.

Senior Management Team

(March 31, 2017)

Michael Denham
President and CEO

Paul Buron
Executive
Vice President and
Chief Financial Officer

Pierre Dubreuil
Executive
Vice President
Financing

Peter Lawler
Executive
Vice President
BDC Advisory Services

Jérôme Nycz
Executive
Vice President
BDC Capital

Christopher Rankin
Executive
Vice President and
Chief Risk Officer

Chantal Belzile
Senior Vice President
Chief Information and
Innovation Officer

Michel Bergeron
Senior Vice President
Marketing and
Public Affairs

Mary Karamanos
Senior Vice President
Human Resources

François Lecavalier
Senior Vice President
Corporate Development

Louise Paradis
Senior Vice President
Legal Affairs and
Corporate Secretary

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	2017	2016	2015	2014	2013
Loans					
Committed to clients[1]					
as at March 31					
Amount	**25,766,208**	23,013,157	21,256,479	19,723,747	18,341,604
Number of clients	**39,203**	34,428	32,213	29,929	28,056
Acceptances					
Amount	**6,620,880**	4,800,062	4,711,675	4,102,065	4,110,703
Number	**16,432**	14,434	12,012	10,976	9,195
Subordinate Financing					
(includes both BDC and Caisse portion)					
Committed to clients[1]					
as at March 31					
Amount	**953,833**	816,452	706,866	636,277	583,816
Number of clients	**594**	537	471	427	400
Acceptances					
Amount	**320,527**	259,060	231,514	186,606	189,757
Number	**180**	174	177	126	113
Venture Capital					
Committed to clients[1]					
as at March 31					
Amount	**1,230,005**	1,178,321	1,026,967	861,881	821,882
Number of clients	**253**	235	209	183	149
Authorizations					
Amount	**160,812**	253,086	185,421	154,754	145,267
Number	**91**	130	101	94	87
Asset-backed securities					
Amount committed to clients[1]	**945,000**	805,000	630,000	530,000	907,048
as at March 31					
Amount authorized (cancelled) and renewed	**140,000**	575,000	100,000	(175,000)[2]	265,000
Venture Capital Action Plan					
Commited to clients[1]					
as at March 31	**390,358**	390,159	324,746	210,000	–
Amount	**8**	8	8	5	–
Number of clients					
Authorizations					
Amount	**–**	64,976	114,845	210,000	–
Number	**–**	–	3	5	–
BDC					
Total committed to clients	**29,295,404**	26,203,089	23,945,058	21,961,905	20,654,350

(1) Amount committed to clients represents portfolio outstanding and amount undisbursed, at cost.

(2) Amount cancelled includes $25,000 of authorizations and $200,000 of cancellations.

(in thousands of Canadian dollars)

Financial Information	**2017**	2016	2015	2014	2013
Net Income and Comprehensive Income – by Business Segments[1] for the years ended March 31					
Financing	**447,016**	441,794	453,428	433,833	433,124
Growth & Transition Capital	**44,631**	53,697	38,525	23,305	34,685
Venture Capital	**5,227**	67,440	23,268	(12,075)	(8,559)
Advisory Services	**(45,784)**	(31,569)	(24,245)	(16,855)	(12,450)
Securitization	**3,651**	3,085	3,965	5,822	11,355
Venture Capital Action Plan	**10,075**	3,284	(4,251)	(1,418)	-
Net income	**464,816**	537,731	490,690	432,612	458,155
Net income attributable to:					
BDC's shareholder	**465,974**	535,448	490,516	425,968	454,661
Non-controlling interests	**(1,158)**	2,283	174	6,644	3,494
Net income	**464,816**	537,731	490,690	432,612	458,155
Other comprehensive income (loss)[2]	**71,702**	(43,653)	(30,247)	49,633	(24,906)
Total comprehensive income	**536,518**	494,078	460,443	482,245	433,249
Total comprehensive income attributable to:					
BDC's shareholder	**537,676**	491,795	460,269	475,601	429,755
Non-controlling interests	**(1,158)**	2,283	174	6,644	3,494
Total comprehensive income	**536,518**	494,078	460,443	482,245	433,249
Financial Position Information as at March 31					
Asset-backed securities	**518,088**	509,758	407,731	336,477	437,453
Loans, net of allowance for credit losses	**21,752,511**	19,717,706	18,414,044	17,241,064	15,871,635
Subordinate financing investments	**860,448**	751,404	642,810	576,677	557,840
Venture Capital investments	**1,015,713**	928,000	709,639	495,096	456,708
Venture Capital Action Plan investments	**301,541**	137,668	47,643	5,169	–
Total assets	**25,316,765**	22,905,903	21,129,017	19,569,957	18,183,905
Total liabilities	**19,377,470**	17,556,384	16,349,896	15,179,908	14,228,230
Total equity attributable to:					
BDC's shareholder	**5,917,500**	5,323,473	4,744,566	4,338,910	3,872,902
Non-controlling interests	**21,795**	26,046	34,554	51,139	82,773
Total equity	**5,939,295**	5,349,519	4,779,120	4,390,049	3,955,675

(1) For detailed information on fiscal 2017 and fiscal 2016 segmented information, please also refer to Note 25—*Segmented information* to the Consolidated Financial Statements.

(2) For detailed information on fiscal 2017 and fiscal 2016 Other comprehensive income, please refer to Consolidated Statement of Comprehensive Income (p. 56).

Glossary

Acceptance – The point at which the client has agreed to the authorized financing terms and conditions that BDC has offered him or her. Client acceptance follows BDC authorization. (Information on acceptances disclosed in this report is net of cancellations or reductions after client acceptance.)

Allowance for credit losses – Represents an amount that management deems adequate to fully provide for impairment in the existing loan portfolio. Allowance for credit losses can be individual or collective, and is recorded on the financial position as a deduction from loans.

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.)

Collective allowance – Established by management to recognize credit losses in the existing performing loan portfolio that have occurred as at the financial position date but have not yet been specifically identified on an individual loan basis.

Cross-currency swaps – Agreements to exchange payments in different currencies over pre-determined periods of time.

Debt-to-equity ratio – A measure to ensure BDC operates within its statutory limitations on debts, calculated as the aggregate of borrowings and contingent liabilities over the equity attributable to BDC's shareholder. It also includes preferred shares classified as liabilities, and excludes accumulated other comprehensive income or loss. The statutory limit of BDC's debt-to-equity ratio is 12:1.

Derivative financial instruments – Contracts whose value is "derived" from movements in interest or foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

Direct investments – Investments BDC makes directly in investee companies.

Fair value – The price that knowledgeable, willing parties—under no compulsion to act—would agree to in an arm's-length transaction. Fair value represents management's best estimate of the net worth of an investment at the financial position date and may not reflect the ultimate realizable value upon disposal of the investment.

Financing efficiency ratio – A measure of the efficiency with which BDC incurs expenses to generate income on its financing operations. It is calculated as operating and administrative expenses, as a percentage of net interest and other income. Other income includes fee income and net realized gains or losses on other financial instruments. 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.

Individual allowance – An allowance that management establishes to recognize credit losses in the existing loan portfolios that have occurred and are identified on an individual loan basis, as at the financial position date.

Interest rate swaps – Agreements to exchange streams of interest payments—typically, one at a floating rate and the other at a fixed rate—over a specified period, based on notional principal amounts.

Master netting agreement – A standard bilateral contract that enables trading counterparties to agree to net collateral requirements and, in a close-out situation, settlement amounts related to underlying master trading contracts for sales and purchases of financial instruments. The master netting agreement offsets positive balances of one transaction with negative balances of another.

Net change in unrealized appreciation or depreciation of investments – Amount included in income resulting from movements in the fair value of investments for the period.

Net interest income – The difference between interest revenues generated by interest-bearing portfolios, as well as cash equivalents and securities, and the cost of borrowings to fund these assets.

Net realized gains or losses on investments – Gains realized, net of realized capital losses, upon sale or write-off of investments, excluding the net change in unrealized appreciation or depreciation of venture capital and subordinate financing investments.

Net realized gains or losses on other financial instruments – Amounts that are related to structured notes and their associated derivatives. Realized gains or losses occur when financial instruments are repurchased prior to maturity at a price higher or lower than the original purchase price.

Net unrealized gains or losses on other financial instruments – Amounts that are related to structured notes and their associated derivatives. These represent the amounts included in income resulting from movements in the fair value of financial instruments for the period.

Non-controlling interest – The equity in a subsidiary not attributable, directly or indirectly, to BDC.

Performing portfolio – Loans for which there is reasonable assurance that BDC can collect the principal and interest on time.

Provision for credit losses – A charge to income that represents an amount that management deems adequate to fully provide for impairment in the existing loan portfolios, given the composition of the loan portfolios, the probability of default on the loans, the economic environment and the allowance for credit losses already established.

Return on common equity (ROE) – Net income, less preferred share dividends, expressed as a percentage of average common equity. It excludes other comprehensive income or loss on post-employment benefits, accumulated other comprehensive income or loss, and non-controlling interest.

Revenue from Advisory Services – Fees from services provided by BDC's national network of consultants to assess, plan and implement management solutions.

Start-up – A business that is being established for the first time. Also included in this category are existing enterprises that have not yet registered 12 consecutive months of sales.

Subordinate financing – A hybrid instrument that brings together some features of both debt financing and equity financing.

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EXCAVATING
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