BDC

Entrepreneurs first

2016

FIRST QUARTER

FINANCIAL REPORT

June 30, 2015

Canada

EXECUTIVE SUMMARY

The Canadian economy is in a downturn. As expected, the oil price decline is limiting economic growth by reducing investment in Alberta, Saskatchewan and Newfoundland, along with ripple effects in other parts of the country. Moreover, exports declined in May, the fifth consecutive monthly decrease despite a lower dollar. After a strong increase in 2014, exports have declined by 4.5% since January, due to lower-than-expected economic growth in the U.S. As a result, Canadian GDP contracted in the first four months of the year.

The technical definition of a recession is two consecutive quarters of negative growth. We may have met this definition, but this slowdown is most likely temporary. Although investments have been impacted by lower oil prices, and exports have not supported growth in the first part of the year as expected, there are some positive signals. First, the U.S. economy shows signs of rebounding in the second part of the year, which will help our exports for the remainder of 2015. Second, the Canadian economy has created 96,000 jobs since the start of the year, which typically is not an indicator of a recession. Finally, the housing market is still solid and consumer spending is growing. The Canadian economy is slowing down and heading into a more modest growth phase but should stay on the growth path. Both the International Monetary Fund (IMF) and the Consensus survey still forecast growth for this year. The IMF just revised its GDP growth forecast for Canada from 2.2% to 1.5% and the Consensus survey forecasts GDP growth of 1.6% for 2015.

Business lending conditions continue to be stimulative. As of May 2015, total business credit had increased by 12.3% over three months and by 8.3% over 12 months.[1] Both short-term and long-term credit from chartered banks increased during the period. For example, short-term credit increased by 14.5% over three months and by 9.6% over 12 months.

BDC works to ensure that small and medium-sized businesses have the support they need to grow and succeed. Clients of Financing[2] accepted $1.4 billion in loans this quarter, compared to $1.2 billion last year.

As at June 30, 2015, Financing's[2] loan portfolio, before allowance for credit losses, stood at $19.1 billion, a 1.1% increase since March 31, 2015.

BDC continued to focus on small loans, while also supporting the growth of medium-sized firms and participating in financial transactions with other financial institutions. During the quarter, 2,584 clients of Financing and Growth & Transition Capital accepted loans of $500,000 or less for a total of $253.0 million, compared to 2,064 clients and $213.4 million for the same period last year.

Growth & Transition Capital continued to support the growth plans of Canadian entrepreneurs through its diverse product offering, with clients accepting $61.0 million in financing in the first quarter. This compares to $34.6 million for the same period last year.

(1) Source: Bank of Canada.

(2) Unless otherwise indicated, Financing excludes Growth & Transition Capital.

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

Our mission is to help create and develop Canadian businesses through financing, venture capital and consulting services, with a focus on small and medium-sized enterprises.

When entrepreneurs succeed, they make an irreplaceable contribution to Canada's economy. Supporting them is in our national interest.

To support innovative Canadian companies and create the conditions for success in the venture capital ecosystem, Venture Capital authorized investments totalling $55.5 million in the first quarter, compared to $40.2 million in the same period last year.

BDC Capital's Strategic Investments and Partnerships (SIP) team continued to develop initiatives to support key areas of the venture capital ecosystem. It makes investments in specialized funds, accelerators and graduates of accelerators. As at June 30, 2015, the SIP team had invested in 127 start-ups, representing $20.3 million.

During the quarter, BDC continued the deployment of the Venture Capital Action Plan (VCAP), a federal government initiative to invest $400 million to increase private sector venture capital financing for high-potential, innovative Canadian businesses. VCAP authorized $10.9 million in investments during the first quarter of fiscal 2016. Four high-performing funds in the information technology and life sciences sectors have been closed and are now fully operational. As at June 30, 2015, the total VCAP portfolio stood at $65.1 million, compared to $47.6 million as at March 31, 2015. These amounts represented the fair value of the total funds invested to date by BDC in the four high-performing funds.

BDC is maintaining its role in the securitization market, where small and medium-sized enterprises access financing for the vehicles and equipment they need to improve productivity. As at June 30, total asset-backed securities stood at $434.5 million, compared to $407.7 million as at March 31. For the three-month period ended June 30, 2015, disbursements totalled $79.5 million, compared to $56.6 million for the same period last year.

In the first quarter of fiscal 2016, BDC posted consolidated net income of $171.0 million[(3)], compared to $121.8 million[(3)] for the same period last year. The increase was mostly attributable to higher net fair value appreciation of venture capital investments.

For the quarter, consolidated total comprehensive income was $242.9 million, compared to $95.0 million for the same period last year. The increase in other comprehensive income was mostly due to remeasurement gain on the net defined benefit asset or liability. Refer to the consolidated comprehensive income section for further information.

During the first quarter of fiscal 2016, BDC released a study which concluded that high-impact firms are important contributors to the economy and that they play a significant role in helping improve Canada's competitiveness. High-impact firms are defined as being mostly mid-sized (100 to 500 employees), although smaller firms with particularly high growth are also included in this category. The report looked at high-impact firms, examined the challenges they face and proposed key actions on how to better support their growth. Following the release of the report, and further to the announcement made by the federal government in Economic Action Plan 2015, BDC created a new unit called BDC Advantage that offers a full range of non-financial services to entrepreneurs. This is consistent with BDC's mandate as a development bank, and in line with international best practices. To that effect, BDC's existing Consulting business — which has some 1,400 clients — was moved into BDC Advantage. A small team of highly experienced individuals will also be set up within BDC Advantage and will focus on increasing the competitiveness of high-impact firms. BDC will continue to offer and develop financial solutions adapted for high-impact firms, as well as to offer consulting services to small and medium-sized businesses. BDC Advantage provides its non-financial services on a fee-for-service basis. However, management maintains that, given the nature of the market segments in which we operate, full cost recovery cannot be expected on these activities.

(3) Including $0.7 million and $0.4 million in net income attributable to non-controlling interests for fiscal 2016 and 2015, respectively.

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

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

CONTEXT OF THE QUARTERLY FINANCIAL REPORT

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

RISK MANAGEMENT

Risk is an inherent feature of the financial sector. BDC uses sound practices of enterprise risk management (ERM).

BDC manages risk through the development and communication of policies; the establishment of formal risk reviews and approval processes; and the establishment of limits and delegation of authorities. The Board of Directors and its Credit and Risk Committee review quarterly ERM reports and monitor the effectiveness of BDC's ERM practices. In each line of business, management ensures that governance activities, controls, processes and procedures are consistent with BDC's sound ERM practices.

No significant changes were made to BDC's ERM practices and no new risks were identified during the quarter ended June 30, 2015.

ANALYSIS OF FINANCIAL RESULTS

Analysis of financial results is provided to enable a reader to assess BDC's results of operations and financial condition for the three-month period ended June 30, 2015, compared to the corresponding period of the prior fiscal year. This analysis also includes comments about significant variances from BDC's fiscal 2016–20 Corporate Plan, when applicable.

BDC reports on six business segments: Financing, Growth & Transition Capital, Venture Capital, BDC Advantage, Securitization and Venture Capital Action Plan (VCAP). BDC Advantage is a newly created segment which comprises non-financial activities, including Consulting and High-Impact Firms. Refer to BDC Advantage results and Note 13—*Segmented Information* to the financial statements for more information. All amounts are in Canadian dollars, unless otherwise specified, and are based on unaudited condensed quarterly Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS).

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

Consolidated net income

	Three months ended June 30	
($ in millions)	**F2016**	F2015
Financing	**121.4**	118.9
Growth & Transition Capital	**5.1**	3.2
Venture Capital	**54.2**	5.0
BDC Advantage	**(7.6)**	(5.3)
Securitization	**0.6**	1.0
Venture Capital Action Plan	**(2.7)**	(1.0)
Net income	**171.0**	121.8
Net income attributable to:		
BDC's shareholder	**170.3**	121.4
Non-controlling interests	**0.7**	0.4
Net income	**171.0**	121.8

Three months ended June 30

BDC reported consolidated net income of $171.0 million for the first quarter ended June 30, 2015, comprising $170.3 million attributable to BDC's shareholder and $0.7 million to non-controlling interests. This compares to $121.8 million in consolidated net income for the first quarter of fiscal 2015, of which $0.4 million was attributable to non-controlling interests.

Net income in the first quarter of fiscal 2016 was higher than in the corresponding period of fiscal 2015, due primarily to higher net income from Venture Capital. Refer to the Venture Capital section of this analysis for further information.

Currently, BDC expects its consolidated net income for fiscal 2016 to exceed the Corporate Plan target of $423 million.

Consolidated comprehensive income

	Three months ended June 30	
($ in millions)	**F2016**	F2015
Net income	**171.0**	121.8
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net income		
Net change in unrealized gains (losses) on available-for-sale assets	**(0.4)**	(0.5)
Net change in unrealized gains (losses) on cash flow hedges	**(1.1)**	(0.5)
Total items that may be reclassified subsequently to net income	**(1.5)**	(1.0)
Items that will not be reclassified to net income		
Remeasurements of net defined benefit asset or liability	**73.4**	(25.8)
Other comprehensive income (loss)	**71.9**	(26.8)
Total comprehensive income	**242.9**	95.0
Total comprehensive income attributable to:		
BDC's shareholder	**242.2**	94.6
Non-controlling interests	**0.7**	0.4
Total comprehensive income	**242.9**	95.0

Three months ended June 30

Consolidated total comprehensive income for the first quarter was $242.9 million, comprising $171.0 million in consolidated net income and $71.9 million in other comprehensive income. Remeasurements of net defined benefit asset or liability of $73.4 million contributed to the increase in other comprehensive income in the first quarter. For the most part, these gains were caused by higher discount rates used to value the net defined benefit asset or liability, partially offset by lower returns on pension plan assets.

Financing results

($ in millions)	Three months ended June 30 F2016	F2015
Net interest and fee income	**236.9**	219.4
Provision for credit losses	**(28.2)**	(17.4)
Net gains (losses) on other financial instruments	**1.2**	(0.7)
Income before operating and administrative expenses	**209.9**	201.3
Operating and administrative expenses	**88.5**	82.4
Net income from Financing	**121.4**	118.9

As % of average portfolio	Three months ended June 30 F2016	F2015
Net interest and fee income	**4.9**	4.9
Provision for credit losses	**(0.6)**	(0.4)
Net gains (losses) on other financial instruments	**-**	-
Income before operating and administrative expenses	**4.3**	4.5
Operating and administrative expenses	**1.8**	1.8
Net income from Financing	**2.5**	2.7

Three months ended June 30

Financing's net income was $121.4 million for the first quarter of fiscal 2016, compared to $118.9 million for the same period last year.

The increase in profitability was mostly due to higher net interest and fee income, mainly driven by portfolio growth. Despite the increase in the provision for credit losses, the level of losses remained low, at 0.6% of the average portfolio.

Operating and administrative expenses for the three-month period ended June 30, 2015, were higher than those in the corresponding period last year. This was mainly due to higher staff levels, as BDC has launched an initiative aimed at increasing its presence in certain regions, specifically in Western Canada and Ontario, to ensure that entrepreneurs in these regions are not under-served. However, as a percentage of the average portfolio, operating and administrative expenses were comparable to those in the same period last year.

Growth & Transition Capital results

	Three months ended June 30	
($ in millions)	**F2016**	F2015
Net revenue on investments	**19.4**	13.8
Net change in unrealized appreciation (depreciation) of investments	**(7.0)**	(4.0)
Income before operating and administrative expenses	**12.4**	9.8
Operating and administrative expenses	**7.3**	6.6
Net income from Growth & Transition Capital	**5.1**	3.2
Net income attributable to:		
BDC's shareholder	**4.8**	2.7
Non-controlling interests	**0.3**	0.5
Net income from Growth & Transition Capital	**5.1**	3.2

Three months ended June 30

Growth & Transition Capital's net income for the first quarter of fiscal 2016 was $5.1 million, compared to net income of $3.2 million for the same period last year.

Net revenue on investments of $19.4 million for the first quarter was higher than the $13.8 million recorded last year, mainly due to lower write-offs ($7.3 million) and higher fee and other income ($0.7 million), partially offset by lower realized gains on investments ($2.4 million).

The net change in unrealized depreciation of investments of $7.0 million for the quarter included the following:

> a $5.3 million net fair value depreciation ($5.3 million net fair value depreciation for the same period last year); and

> a reversal of net fair value appreciation due to net realized gains totalling $1.7 million (reversal of net fair value depreciation due to net realized losses of $1.3 million for the same period last year).

Operating and administrative expenses amounted to $7.3 million, higher than the $6.6 million recorded last year as a result of higher staff levels required to fully support the growth of Canadian companies.

Venture Capital results

	Three months ended June 30	
($ in millions)	**F2016**	F2015
Net revenue (loss) on investments	**3.0**	0.6
Net change in unrealized appreciation (depreciation) of investments	**57.7**	10.8
Net unrealized foreign exchange gains (losses) on investments	**(1.5)**	(6.2)
Net gains (losses) on other financial instruments	**0.3**	5.0
Income before operating and administrative expenses	**59.5**	10.2
Operating and administrative expenses	**5.3**	5.2
Net income from Venture Capital	**54.2**	5.0
Net income attributable to:		
BDC's shareholder	**53.8**	5.1
Non-controlling interests	**0.4**	(0.1)
Net income from Venture Capital	**54.2**	5.0

Three months ended June 30

During the first quarter of fiscal 2016, Venture Capital recorded a net income of $54.2 million, compared to a net income of $5.0 million for the same period last year. The significant increase in net income was mainly due to a higher net change in unrealized appreciation of investments following an external round for one of the investees.

Net revenue on investments increased by $2.4 million, primarily due to higher net realized gains on investments, partially offset by higher write-offs.

The net change in unrealized appreciation of investments of $57.7 million was $46.9 million higher than the $10.8 million net change in unrealized appreciation recorded last year and included the following:

- a $55.1 million net fair value appreciation of the portfolio ($10.0 million net fair value appreciation for the same period last year); and
- a reversal of net fair value depreciation on divested investments and write-offs totalling $2.6 million (a reversal of $0.8 million of net fair value depreciation on divested investments and write-offs for the same period last year).

Net unrealized foreign exchange gains or losses on investments were due to foreign exchange fluctuations on the U.S. dollar. During the third quarter of fiscal 2015, BDC discontinued hedging U.S. dollar investments and only uses foreign exchange contracts to hedge U.S. dollar proceeds expected to be received.

BDC Advantage results

	Three months ended June 30	
($ in millions)	**F2016**	F2015
Revenue	**3.5**	4.1
Operating and administrative expenses	**11.1**	9.4
Net loss from BDC Advantage	**(7.6)**	(5.3)

Three months ended June 30

During the first quarter of fiscal 2016, BDC undertook the first steps in setting up a team of experts dedicated to helping high-impact firms and created a new unit called BDC Advantage. The consulting services were also moved into that new unit. This team will work in collaboration with third parties to facilitate high-impact firms' access to other services that exist — or need to be developed — in the entrepreneurial ecosystem. The initial focus of the team will be on the following areas:

> Develop the ability to provide long-term, unbiased advice. We will expand our advisory team with highly experienced individuals who can help entrepreneurs assess their needs, and provide advice on a long-term and objective basis.

> Develop a service offering specifically tailored for high-impact firms. To address the challenges faced by high-impact firms, in addition to its existing service offerings, new BDC offerings could include formal management training, peer-to-peer networking, and other highly tailored non-financial services. We will offer these services by leveraging our own expert resources and consultant networks, and also by partnering with third-party organizations.

BDC Advantage provides its non-financial services on a fee-for-service basis. However, management maintains that, given the nature of the market segments in which we operate, full cost recovery cannot be expected on these activities. Management believes that BDC's non-financial services have a significant positive impact on Canadian small and medium-sized enterprises and the broader economy.

BDC Advantage's net loss was $7.6 million for the first quarter of fiscal 2016, compared to a $5.3 million net loss recorded for the same quarter last year.

Revenue was $3.5 million for the first quarter of fiscal 2016, lower than the $4.1 million recorded for the same period last year.

Operating and administrative expenses of $11.1 million were $1.7 million higher than those recorded in the same period of fiscal 2015, as BDC started allocating resources and building a team of experts to support high-impact firms.

Securitization results

	Three months ended June 30	
($ in millions)	**F2016**	F2015
Net interest and fee income	**1.1**	1.4
Income before operating and administrative expenses	**1.1**	1.4
Operating and administrative expenses	**0.5**	0.4
Net income from Securitization	**0.6**	1.0

Three months ended June 30

Net income from Securitization for the first quarter of fiscal 2016 was $0.6 million, compared to $1.0 million for the same period last year. The decrease in income was due to lower net interest and fee income as a result of a decrease in the yield.

Operating and administrative expenses for the three-month period ended June 30, 2015, were slightly higher than those reported for the same period last year.

Venture Capital Action Plan results

	Three months ended June 30	
($ in millions)	**F2016**	F2015
Net revenue (loss) on investments	**-**	0.1
Net change in unrealized appreciation (depreciation) of investments	**(2.5)**	(0.9)
Income (loss) before operating and administrative expenses	**(2.5)**	(0.8)
Operating and administrative expenses	**0.2**	0.2
Net income (loss) from Venture Capital Action Plan	**(2.7)**	(1.0)

Three months ended June 30

During the first quarter of fiscal 2016, Venture Capital Action Plan (VCAP) recorded a net loss of $2.7 million, mostly as a result of a net change in unrealized depreciation of investments of $2.5 million.

Operating and administrative expenses for the three-month period ended June 30, 2015, were comparable to those reported for the same period last year.

Consolidated Statement of Financial Position and Cash Flows

As at June 30, 2015, total BDC assets amounted to $21.5 billion, an increase of $0.4 billion from March 31, 2015, mainly due to the increase in loans and investments.

At $18.6 billion, the loan portfolio represented BDC's largest asset ($19.1 billion in gross portfolio and a $0.5 billion allowance for credit losses). The gross loan portfolio grew by 1.1% in the three months after March 31, 2015.

As for BDC's investment portfolios, the subordinate financing portfolio stood at $657.2 million, compared to $642.8 million as at March 31, 2015. Net investment disbursements accounted for most of the increase in this portfolio. The venture capital portfolio was $797.3 million as at June 30, 2015, compared to $709.6 million as at March 31, 2015. The increase in this portfolio was mainly due to investment disbursements and to a higher net change in unrealized appreciation. The venture capital action plan portfolio stood at $65.1 million, compared to $47.6 million as at March 31, 2015. Investment disbursements accounted for most of the increase.

The asset-backed securities (ABS) portfolio stood at $434.5 million, compared to $407.7 million as at March 31, 2015. The increase in the portfolio was due to net disbursements of securities purchased under the Funding Platform for Independent Lenders (F-PIL) program.

Derivative assets of $45.9 million and derivative liabilities of $6.4 million reflected the fair value of derivative financial instruments as at June 30, 2015. Net derivative fair value decreased by $6.3 million, compared to the fair value as at March 31, 2015, primarily due to a decrease in fair value, as well as to maturities and redemptions.

As at June 30, 2015, BDC recorded a net defined benefit asset of $155.7 million related to the registered pension plan, and a net defined benefit liability of $197.8 million for the other plans, for a total net defined benefit liability of $42.1 million. This represents a decrease of $77.1 million compared to the total net defined benefit liability as at March 31, 2015, primarily as the result of remeasurement gains on the net defined benefit asset or liability recorded during the three-month period ended June 30, 2015. Refer to page 7 of this report for further information on remeasurements of net defined benefit asset or liability.

BDC holds cash and cash equivalents in accordance with its Treasury Risk Policy. The Bank's liquidities, which ensure funds are available to meet BDC's cash outflows, totalled $649.9 million as at June 30, 2015, compared to $667.1 million as at March 31, 2015. For the three-month period ended June 30, 2015, cash flow used by investing activities amounted to $99.0 million, as a result of net disbursements of subordinate financing and venture capital investments, and ABS. Financing activities provided $146.2 million in cash flow, mainly as a result of the issuance of short-term notes and common shares, partially offset by the repayment of long-term notes and the payment of dividends, while operating activities used $64.3 million, mainly due to the increase in the loans portfolio.

As at June 30, 2015, BDC funded its portfolios and liquidities with borrowings of $16.0 billion and total equity of $5.1 billion. Borrowings comprised $15.5 billion in short-term notes and $0.5 billion in long-term notes.

CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, in thousands of Canadian dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

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

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

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

Pierre Dubreuil
Executive Vice President, Financing

Montreal, Canada
July 29, 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(unaudited)

(in thousands of Canadian dollars)	Notes	June 30, 2015	March 31, 2015
ASSETS			
Cash and cash equivalents		**649,869**	667,084
Derivative assets		**45,865**	53,322
Loans and investments			
Asset-backed securities	7	**434,499**	407,731
Loans	8	**18,603,939**	18,414,044
Subordinate financing investments	9	**657,240**	642,810
Venture capital investments	10	**797,340**	709,639
Venture capital action plan investments	11	**65,137**	47,643
Total loans and investments		**20,558,155**	20,221,867
Property and equipment		**24,499**	24,435
Intangible assets		**46,297**	48,961
Net defined benefit asset		**155,659**	100,429
Other assets		**19,209**	12,919
Total assets		**21,499,553**	21,129,017
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and accrued liabilities		**111,295**	101,996
Derivative liabilities		**6,395**	7,515
Borrowings			
Short-term notes		**15,524,853**	15,435,747
Long-term notes		**518,325**	548,709
Total borrowings		**16,043,178**	15,984,456
Net defined benefit liability		**197,758**	219,664
Other liabilities		**34,837**	36,266
Total liabilities		**16,393,463**	16,349,897
Equity			
Share capital	12	**2,288,400**	2,138,400
Contributed surplus		**27,778**	27,778
Retained earnings		**2,751,309**	2,570,454
Accumulated other comprehensive income		**6,448**	7,934
Equity attributable to BDC's shareholder		**5,073,935**	4,744,566
Non-controlling interests		**32,155**	34,554
Total equity		**5,106,090**	4,779,120
Total liabilities and equity		**21,499,553**	21,129,017

Guarantees (Note 14)

Commitments (Note 15)

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

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

(in thousands of Canadian dollars)	Three months ended June 30 2015	2014
Interest income	**271,200**	263,905
Interest expense	**23,194**	33,009
Net interest income	**248,006**	230,896
Net realized gains (losses) on investments	**2,879**	(6,084)
Consulting revenue	**3,554**	4,118
Fee and other income	**9,474**	10,565
Net realized gains (losses) on other financial instruments	**399**	(962)
Net revenue	**264,312**	238,533
Provision for credit losses	**(28,159)**	(17,406)
Net change in unrealized appreciation (depreciation) of investments	**48,178**	5,945
Net unrealized foreign exchange gains (losses) on investments	**(1,451)**	(6,175)
Net unrealized gains (losses) on other financial instruments	**1,086**	5,206
Income before operating and administrative expenses	**283,966**	226,103
Salaries and benefits	**80,619**	72,027
Premises and equipment	**11,617**	10,651
Other expenses	**20,720**	21,654
Operating and administrative expenses	**112,956**	104,332
Net income	**171,010**	121,771
Net income attributable to:		
BDC's shareholder	**170,358**	121,419
Non-controlling interests	**652**	352
Net income	**171,010**	121,771

The accompanying notes are an integral part of these Consolidated Financial Statements and Note 13 provides additional information on segmented net income.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(unaudited)

(in thousands of Canadian dollars)	Three months ended June 30 2015	2014
Net income	**171,010**	121,771
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net income		
Net change in unrealized gains (losses) on available-for-sale assets	**(394)**	(457)
Net unrealized gains (losses) on cash flow hedges	**(1,048)**	(430)
Reclassification to net income of losses (gains) on cash flow hedges	**(44)**	(119)
Net change in unrealized gains (losses) on cash flow hedges	**(1,092)**	(549)
Total items that may be reclassified subsequently to net income	**(1,486)**	(1,006)
Items that will not be reclassified to net income		
Remeasurements of net defined benefit asset or liability	**73,385**	(25,840)
Other comprehensive income (loss)	**71,899**	(26,846)
Total comprehensive income	**242,909**	94,925
Total comprehensive income attributable to:		
BDC's shareholder	**242,257**	94,573
Non-controlling interests	**652**	352
Total comprehensive income	**242,909**	94,925

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three-month period ended June 30
(unaudited)

				Accumulated other comprehensive income (loss)					
(in thousands of Canadian dollars)	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, 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			**170,358**				**170,358**	**652**	**171,010**
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				**(394)**		**(394)**	**(394)**		**(394)**
Net change in unrealized gains (losses) on cash flow hedges					**(1,092)**	**(1,092)**	**(1,092)**		**(1,092)**
Remeasurements of net defined benefit asset or liability			**73,385**				**73,385**		**73,385**
Other comprehensive income (loss)	**-**	**-**	**73,385**	**(394)**	**(1,092)**	**(1,486)**	**71,899**	**-**	**71,899**
Total comprehensive income	**-**	**-**	**243,743**	**(394)**	**(1,092)**	**(1,486)**	**242,257**	**652**	**242,909**
Issuance of shares	**150,000**						**150,000**		**150,000**
Dividends on common shares			**(62,888)**				**(62,888)**		**(62,888)**
Distributions to non-controlling interests								**(3,783)**	**(3,783)**
Capital injections from non-controlling interests								**732**	**732**
Transactions with owner, recorded directly in equity	**150,000**	**-**	**(62,888)**	**-**	**-**	**-**	**87,112**	**(3,051)**	**84,061**
Balance as at June 30, 2015	**2,288,400**	**27,778**	**2,751,309**	**3,553**	**2,895**	**6,448**	**5,073,935**	**32,155**	**5,106,090**

				Accumulated other comprehensive income (loss)					
(in thousands of Canadian dollars)	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, 2014	2,138,400	27,778	2,167,279	2,207	3,246	5,453	4,338,910	51,139	4,390,049
Total comprehensive income									
Net income			121,419				121,419	352	121,771
Other comprehensive income (loss)									
Net change in unrealized gains (losses) on available-for-sale assets				(457)		(457)	(457)		(457)
Net change in unrealized gains (losses) on cash flow hedges					(549)	(549)	(549)		(549)
Remeasurements of net defined benefit asset or liability			(25,840)				(25,840)		(25,840)
Other comprehensive income (loss)	-	-	(25,840)	(457)	(549)	(1,006)	(26,846)	-	(26,846)
Total comprehensive income	-	-	95,579	(457)	(549)	(1,006)	94,573	352	94,925
Dividends on common shares			(54,613)				(54,613)		(54,613)
Distributions to non-controlling interests								(9,638)	(9,638)
Capital injections from non-controlling interests								92	92
Transactions with owner, recorded directly in equity	-	-	(54,613)	-	-	-	(54,613)	(9,546)	(64,159)
Balance as at June 30, 2014	2,138,400	27,778	2,208,245	1,750	2,697	4,447	4,378,870	41,945	4,420,815

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

CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

(in thousands of Canadian dollars)	Three months ended June 30 2015	2014
Operating activities		
Net income	**171,010**	121,771
Adjustments to determine net cash flows		
Interest income	**(271,200)**	(263,905)
Interest expense	**23,194**	33,009
Net realized losses (gains) on investments	**(2,879)**	6,084
Provision for credit losses	**28,159**	17,406
Net change in unrealized depreciation (appreciation) on investments	**(48,178)**	(5,945)
Net unrealized foreign exchange losses (gains) on investments	**1,451**	6,175
Net unrealized losses (gains) on other financial instruments	**(1,086)**	(5,206)
Defined benefits funding in excess of amounts expensed	**(3,751)**	(7,590)
Depreciation of property and equipment, and amortization of intangible assets	**4,389**	3,617
Loss (gain) on disposal of property and equipment	**-**	9
Other	**2,332**	2,640
Interest expense paid	**(20,156)**	(28,572)
Interest income received	**265,643**	258,539
Disbursements for loans	**(1,033,898)**	(871,201)
Repayments of loans	**819,058**	712,963
Changes in operating assets and liabilities		
Net change in accounts payable and accrued liabilities	**9,299**	9,348
Net change in other assets and other liabilities	**(7,719)**	(2,603)
Net cash flows provided (used) by operating activities	**(64,332)**	(13,461)
Investing activities		
Disbursements for asset-backed securities	**(79,462)**	(56,591)
Repayments and proceeds on sale of asset-backed securities	**52,312**	33,348
Disbursements for subordinate financing investments	**(54,737)**	(45,626)
Repayments of subordinate financing investments	**33,268**	38,092
Disbursements for venture capital investments	**(53,672)**	(38,764)
Proceeds on sale of venture capital investments	**25,026**	11,245
Disbursements for venture capital action plan investments	**(19,992)**	(565)
Acquisition of property and equipment	**(1,789)**	(498)
Proceeds from disposal of property and equipment	**-**	1
Acquisition of intangible assets	**-**	(469)
Net cash flows provided (used) by investing activities	**(99,046)**	(59,827)
Financing activities		
Net change in short-term notes	**89,000**	240,850
Issue of long-term notes	**-**	39,400
Repayment of long-term notes	**(26,898)**	(135,163)
Distributions to non-controlling interests	**(3,783)**	(9,638)
Capital injections from non-controlling interests	**732**	92
Issue of common shares	**150,000**	-
Dividends paid on common shares	**(62,888)**	(54,613)
Net cash flows provided (used) by financing activities	**146,163**	80,928
Net increase (decrease) in cash and cash equivalents	**(17,215)**	7,640
Cash and cash equivalents at beginning of period	**667,084**	676,529
Cash and cash equivalents at end of period	**649,869**	684,169

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

1. BDC GENERAL DESCRIPTION

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

The objectives of the Business Development Bank of Canada and its subsidiaries (together, BDC) are to promote and assist in the establishment and development of business enterprises in Canada, with a focus on small and medium-sized enterprises, by providing a range of complementary lending and investment services, as well as 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.

2. BASIS OF PREPARATION

Statement of compliance

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

These condensed quarterly Consolidated Financial Statements have been prepared using International Financial Reporting Standards (IFRS) and were approved for issue by the Board of Directors on July 29, 2015.

Basis of presentation and measurement

The condensed quarterly 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 condensed quarterly Consolidated Financial Statements are presented in Canadian dollars, which is BDC's functional currency as well as the functional currency of its subsidiaries. Unless otherwise specified, the figures presented in the 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 condensed quarterly Consolidated Financial Statements of BDC comprise the financial statements of the parent entity and the consolidated financial statements of the subsidiaries referred to above as of June 30, 2015, and

March 31, 2015. The financial statements of the subsidiaries are prepared using uniform accounting policies and valuation methods for similar transactions.

Subsidiaries

For financial reporting purposes, subsidiaries are defined as entities controlled by BDC. BDC controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and 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 condensed quarterly Consolidated Financial Statements.

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

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. During fiscal 2015, all investments were fully liquidated, and these entities will be dissolved.

During the first quarter ended June 30, 2015, there were no investments transferred to AlterInvest II Fund L.P.

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

Financial instruments

Recognition 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.

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.

Available-for-sale 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.

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.

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.

A loss or gain on initial recognition of ABS is recorded if there is a difference between the security's yield and the market-demanded yield for similar investments. This loss or gain is deferred and amortized over the life of the security using the effective interest rate method and recognized in interest income.

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 more than three consecutive months in arrears or if there is reason to believe that a portion of the principal or interest cannot be collected.

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 equity indices, 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, equity prices and other market references.

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

Derivatives

Derivative financial instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, stock market indices, commodity prices 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 June 30, 2015, and March 31, 2015, 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.

Consulting revenues

BDC Advantage provides consulting services to entrepreneurs. Consulting revenues 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.

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

> computer and telecommunications equipment	4 years
> furniture, fixtures and equipment	10 years
> leasehold improvements	lease term

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

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

Equity attributable to BDC 's shareholder

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

Unrealized gains and losses on financial instruments classified as 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, BDC Advantage, 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 in 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* and IFRS 15, *Revenue from Contracts with Customers*, described below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on BDC's 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.

BDC is currently assessing the impact of the adoption of 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, 2017. 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 and services.

BDC is currently assessing the impact of the adoption of IFRS 15.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Preparation of the condensed quarterly 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 condensed quarterly Consolidated Financial Statements are summarized below.

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 significant 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 8—*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, commodity 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.

Judgements

Impairment of available-for-sale assets

BDC determines that asset-backed securities 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 condensed quarterly 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.

(unaudited, 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 June 30, 2015, and March 31, 2015.

June 30, 2015

		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						**649,869**		**649,869**
Derivative assets		**43,309**			**2,556**			**45,865**
Asset-backed securities	7		**4,198**	**430,301**				**434,499**
Loans	8					**18,603,939**		**18,603,939**
Subordinate financing investments	9		**657,240**					**657,240**
Venture capital investments	10		**797,340**					**797,340**
Venture capital action plan investments	11		**65,137**					**65,137**
Other assets[2]						**10,401**		**10,401**
Total financial assets		**43,309**	**1,523,915**	**430,301**	**2,556**	**19,264,209**	**-**	**21,264,290**
Financial liabilities								
Accounts payable and accrued liabilities							**111,295**	**111,295**
Derivative liabilities		**6,395**						**6,395**
Short-term notes							**15,524,853**	**15,524,853**
Long-term notes			**293,759**				**224,566**	**518,325**
Other liabilities[2]							**24,702**	**24,702**
Total financial liabilities		**6,395**	**293,759**	**-**	**-**	**-**	**15,885,416**	**16,185,570**

March 31, 2015

		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						667,084		667,084
Derivative assets		49,666			3,656			53,322
Asset-backed securities	7		3,688	404,043				407,731
Loans	8					18,414,044		18,414,044
Subordinate financing investments	9		642,810					642,810
Venture capital investments	10		709,639					709,639
Venture capital action plan investments	11		47,643					47,643
Other assets[2]						8,200		8,200
Total financial assets		49,666	1,403,780	404,043	3,656	19,089,328	-	20,950,473
Financial liabilities								
Accounts payable and accrued liabilities							101,996	101,996
Derivative liabilities		7,515						7,515
Short-term notes							15,435,747	15,435,747
Long-term notes			304,453				244,256	548,709
Other liabilities[2]							27,568	27,568
Total financial liabilities		7,515	304,453	-	-	-	15,809,567	16,121,535

[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.

(unaudited, in thousands of Canadian dollars)

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

There were 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.

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

				June 30, 2015
	Fair value measurements using			Total
	Level 1	Level 2	Level 3	fair value
Assets				
Derivative assets		45,865		45,865
Asset-backed securities		434,499		434,499
Subordinate financing investments	607		656,633	657,240
Venture capital investments	1,973		795,367	797,340
Venture capital action plan investments			65,137	65,137
	2,580	480,364	1,517,137	2,000,081
Liabilities				
Derivative liabilities		6,395		6,395
Long-term notes designated as at FVTPL[1]		293,759		293,759
	-	300,154	-	300,154

[1] Fair value through profit or loss.

(unaudited, in thousands of Canadian dollars)

	Fair value measurements using			March 31, 2015
	Level 1	Level 2	Level 3	Total fair value
Assets				
Derivative assets		53,322		53,322
Asset-backed securities		407,731		407,731
Subordinate financing investments	607		642,203	642,810
Venture capital investments	1,871		707,768	709,639
Venture capital action plan investments			47,643	47,643
	2,478	461,053	1,397,614	1,861,145
Liabilities				
Derivative liabilities		7,515		7,515
Long-term notes designated as at FVTPL[1]		304,453		304,453
	-	311,968	-	311,968

[1] Fair value through profit or loss.

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

	Subordinate financing investments	**Venture capital investments**	**Venture capital action plan investments**	**June 30, 2015** **Total**
Fair value as at April 1, 2015	**642,203**	**707,768**	**47,643**	**1,397,614**
Net realized gains (losses) on investments	**170**	**2,442**	**-**	**2,612**
Net change in unrealized appreciation (depreciation) of investments	**(7,032)**	**57,593**	**(2,498)**	**48,063**
Net unrealized foreign exchange gains (losses) on investments	**-**	**(1,432)**	**-**	**(1,432)**
Disbursements for investments	**54,737**	**53,418**	**19,992**	**128,147**
Repayments of investments and other	**(33,445)**	**(24,422)**	**-**	**(57,867)**
Fair value as at June 30, 2015	**656,633**	**795,367**	**65,137**	**1,517,137**

(unaudited, in thousands of Canadian dollars)

				March 31, 2015
	Subordinate financing investments	Venture capital investments	Venture capital action plan investments	Total
Fair value as at April 1, 2014	575,993	489,038	5,169	1,070,200
Net realized gains (losses) on investments	(23,010)	(8,873)	-	(31,883)
Net change in unrealized appreciation (depreciation) of investments	9,600	30,118	(3,591)	36,127
Net unrealized foreign exchange gains (losses) on investments	-	27,737	-	27,737
Disbursements for investments	218,335	190,004	46,165	454,504
Repayments of investments and other	(138,715)	(16,385)	(100)	(155,200)
Transfers from level 3 to level 1	-	(3,871)	-	(3,871)
Fair value as at March 31, 2015	642,203	707,768	47,643	1,397,614

7. ASSET-BACKED SECURITIES

	June 30, 2015	March 31, 2015
Available-for-sale		
Principal amount	**426,748**	400,096
Cumulative fair value appreciation (depreciation)	**3,553**	3,947
Carrying value	**430,301**	404,043
Yield	**1.91%**	2.02%
Fair value through profit or loss		
Principal amount	**4,126**	3,609
Cumulative fair value appreciation (depreciation)	**72**	79
Carrying value	**4,198**	3,688
Yield	**7.31%**	7.65%
Asset-backed securities	**434,499**	407,731

No asset-backed securities were impaired as at June 30 or March 31, 2015.

(unaudited, in thousands of Canadian dollars)

8. LOANS

The following tables provide loans outstanding by contractual maturity date.

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	**175,504**	**2,111,454**	**16,349,542**	**18,636,500**	**(350,000)**	**-**	**(350,000)**	**18,286,500**
Impaired	**7,671**	**63,566**	**437,409**	**508,646**	**-**	**(191,207)**	**(191,207)**	**317,439**
Loans as at June 30, 2015	**183,175**	**2,175,020**	**16,786,951**	**19,145,146**	**(350,000)**	**(191,207)**	**(541,207)**	**18,603,939**

	Within 1 year	1 to 5 years	Over 5 years	Total gross amount	Collective allowance	Individual allowance	Total allowance	Total net amount
Performing	186,646	2,078,792	16,187,973	18,453,411	(350,000)	-	(350,000)	18,103,411
Impaired	7,856	62,270	420,430	490,556	-	(179,923)	(179,923)	310,633
Loans as at March 31, 2015	194,502	2,141,062	16,608,403	18,943,967	(350,000)	(179,923)	(529,923)	18,414,044

Allowance for credit losses

	June 30, 2015	March 31, 2015
Balance at beginning of period	**529,923**	508,250
Write-offs	**(16,194)**	(71,983)
Effect of discounting	**(3,317)**	(12,788)
Recoveries and other	**2,636**	10,521
	513,048	434,000
Provision for credit losses	**28,159**	95,923
Balance at end of period	**541,207**	529,923

Concentrations of total loans outstanding

Geographic distribution	June 30, 2015	March 31, 2015
Newfoundland and Labrador	**824,200**	790,243
Prince Edward Island	**53,735**	53,344
Nova Scotia	**486,507**	490,936
New Brunswick	**467,989**	469,044
Quebec	**6,269,520**	6,243,857
Ontario	**4,854,771**	4,812,779
Manitoba	**608,268**	600,946
Saskatchewan	**634,196**	633,566
Alberta	**2,746,715**	2,644,485
British Columbia	**2,075,132**	2,080,226
Yukon	**96,752**	97,397
Northwest Territories and Nunavut	**27,361**	27,144
Total loans outstanding	**19,145,146**	18,943,967

(unaudited, in thousands of Canadian dollars)

Industry sector	June 30, 2015	March 31, 2015
Manufacturing	**4,248,241**	4,186,626
Wholesale and retail trade	**3,871,706**	3,843,068
Service industries	**2,509,087**	2,455,093
Tourism	**2,476,838**	2,491,385
Commercial properties	**2,145,240**	2,183,966
Construction	**1,620,274**	1,560,146
Transportation and storage	**1,096,396**	1,089,428
Resources	**713,144**	680,730
Other	**464,220**	453,525
Total loans outstanding	**19,145,146**	18,943,967

9. SUBORDINATE FINANCING INVESTMENTS

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

	Within 1 year	1 to 5 years	Over 5 years	Total cost	Total fair value
As at June 30, 2015	**73,854**	**511,002**	**94,554**	**679,410**	**657,240**
As at March 31, 2015	80,350	480,167	97,460	657,977	642,810

Concentrations of total subordinate financing investments

	June 30, 2015		March 31, 2015	
Geographic distribution	**Fair value**	**Cost**	Fair value	Cost
Newfoundland and Labrador	**4,979**	**3,747**	5,063	3,831
Nova Scotia	**15,375**	**16,136**	15,888	16,592
New Brunswick	**22,109**	**20,112**	22,352	20,355
Quebec	**265,815**	**283,317**	253,105	269,482
Ontario	**217,171**	**217,466**	212,234	212,103
Manitoba	**10,815**	**8,254**	11,617	8,270
Saskatchewan	**6,450**	**5,473**	6,462	5,485
Alberta	**82,768**	**91,400**	88,517	92,540
British Columbia	**28,042**	**29,657**	23,855	25,470
Yukon	**2,612**	**2,744**	2,613	2,744
Northwest Territories and Nunavut	**1,104**	**1,104**	1,104	1,105
Subordinate financing investments	**657,240**	**679,410**	642,810	657,977

(unaudited, in thousands of Canadian dollars)

	June 30, 2015		March 31, 2015	
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Manufacturing	**226,801**	**229,758**	223,059	225,962
Service industries	**141,667**	**148,967**	135,614	142,482
Wholesale and retail trade	**109,593**	**110,600**	107,962	108,233
Construction	**54,026**	**50,708**	51,697	47,244
Resources	**45,145**	**53,314**	48,732	52,293
Information industries	**22,107**	**24,676**	21,526	24,068
Transportation and storage	**10,554**	**10,971**	11,071	11,494
Tourism	**8,387**	**8,743**	9,756	10,111
Educational services	**3,483**	**3,367**	4,038	3,922
Real estate and rental and leasing	**2,738**	**2,847**	3,033	3,128
Other	**32,739**	**35,459**	26,322	29,040
Subordinate financing investments	**657,240**	**679,410**	642,810	657,977

10. 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. The concentrations and investment types of venture capital investments are listed below.

	June 30, 2015		March 31, 2015	
Industry sector	**Fair value**	**Cost**	Fair value	Cost
Information technology	**163,580**	**151,727**	160,551	151,208
Biotechnology and pharmacology	**132,377**	**91,191**	73,709	81,218
Electronics	**89,149**	**94,404**	89,219	91,774
Medical and health	**43,843**	**49,622**	40,121	45,522
Communications	**30,805**	**33,076**	32,241	33,664
Energy	**18,764**	**22,786**	16,628	20,635
Industrial	**13,673**	**19,331**	12,673	18,331
Other	**3,405**	**2,512**	3,447	2,512
Total direct investments	**495,596**	**464,649**	428,589	444,864
Funds	**301,744**	**256,674**	281,050	245,021
Venture capital investments	**797,340**	**721,323**	709,639	689,885

	June 30, 2015		March 31, 2015	
Investment type	**Fair value**	**Cost**	Fair value	Cost
Common shares	**48,830**	**75,815**	40,061	70,027
Preferred shares	**396,453**	**335,792**	336,898	321,239
Debentures	**50,313**	**53,042**	51,630	53,598
Total direct investments	**495,596**	**464,649**	428,589	444,864
Funds	**301,744**	**256,674**	281,050	245,021
Venture capital investments	**797,340**	**721,323**	709,639	689,885

11. 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 June 30, 2015, the fair value of venture capital action plan investments stood at $65,137 ($47,643 as at March 31, 2015), and their cost was $71,758 ($51,767 as at March 31, 2015).

12. SHARE CAPITAL

An unlimited number of common shares, having a par value of $100 each, is authorized. As at June 30, 2015, there were 22,884,000 common shares outstanding (21,384,000 as at March 31, 2015).

During the first quarter ended June 30, 2015, BDC issued 1,500,000 common shares for $150.0 million.

Statutory limitations

As per the BDC Act, the debt-to-equity ratio cannot exceed 12:1. 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 exceed $3.0 billion. As at June 30, 2015, and March 31, 2015, BDC met both of these statutory limitation requirements.

Capital adequacy

Treasury Board of Canada Secretariat provides guidelines to BDC on its capital adequacy ratios. BDC must maintain overall capital and allowance for credit losses sufficient to ensure that BDC can withstand unfavourable economic circumstances without requiring additional government funding. During the three-month period ended June 30, 2015, and for the fiscal year ended March 31, 2015, BDC complied with its capital adequacy guidelines.

13. 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 of 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.
> **BDC Advantage** supports high-impact firms and provides consulting services, 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. BDC's main allocation methods are described below.

Interest expense is allocated to each operating segment based on its business portfolio and the capital attributed to the segment. The attribution of capital to BDC's business segments is maintained in accordance with the capital adequacy ratios provided by the Treasury Board of Canada Secretariat and is consistently aligned with the economic risks of each specific business segment.

Operating and administrative expenses include costs 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.

(unaudited, in thousands of Canadian dollars)

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

Three months ended June 30, 2015

	BDC	Financing	Growth & Transition Capital	Venture Capital	BDC Advantage	Securitization	Venture Capital Action Plan
Interest income	271,200	253,962	15,148	-	-	2,090	-
Interest expense	23,194	20,888	1,315	-	-	991	-
Net interest income	**248,006**	**233,074**	**13,833**	**-**	**-**	**1,099**	**-**
Net realized gains (losses) on investments	2,879	-	170	2,709	-	-	-
Consulting revenue	3,554	-	-	-	3,554	-	-
Fee and other income	9,474	3,782	5,400	276	-	5	11
Net realized gains (losses) on other financial instruments	399	225	-	174	-	-	-
Net revenue (loss)	**264,312**	**237,081**	**19,403**	**3,159**	**3,554**	**1,104**	**11**
Provision for credit losses	(28,159)	(28,159)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	48,178	-	(7,032)	57,715	-	(7)	(2,498)
Net unrealized foreign exchange gains (losses) on investments	(1,451)	-	-	(1,451)	-	-	-
Net unrealized gains (losses) on other financial instruments	1,086	982	-	104	-	-	-
Income (loss) before operating and administrative expenses	**283,966**	**209,904**	**12,371**	**59,527**	**3,554**	**1,097**	**(2,487)**
Salaries and benefits	80,619	63,030	6,013	3,878	7,079	435	184
Premises and equipment	11,617	10,145	417	381	635	26	13
Other expenses	20,720	15,376	841	1,021	3,395	54	33
Operating and administrative expenses	**112,956**	**88,551**	**7,271**	**5,280**	**11,109**	**515**	**230**
Net income (loss)	**171,010**	**121,353**	**5,100**	**54,247**	**(7,555)**	**582**	**(2,717)**
Net income (loss) attributable to:							
BDC's shareholder	170,358	121,353	4,809	53,886	(7,555)	582	(2,717)
Non-controlling interests	652	-	291	361	-	-	-
Net income (loss)	**171,010**	**121,353**	**5,100**	**54,247**	**(7,555)**	**582**	**(2,717)**
Business segment portfolio at end of period	**20,558,155**	**18,596,721**	**657,240**	**797,340**	**-**	**441,717**[(1)]	**65,137**

(1) Securitization's portfolio at the end of the period included $7,218 in loans and $434,499 in asset-backed securities.

Three months ended June 30, 2014

	BDC	Financing	Growth & Transition Capital	Venture Capital	BDC Advantage	Securitization	Venture Capital Action Plan
Interest income	263,905	246,281	15,662	-	-	1,962	-
Interest expense	33,009	30,602	1,896	-	-	511	-
Net interest income	**230,896**	**215,679**	**13,766**	**-**	**-**	**1,451**	**-**
Net realized gains (losses) on investments	(6,084)	-	(6,219)	135	-	-	-
Consulting revenue	4,118	-	-	-	4,118	-	-
Fee and other income	10,565	3,700	6,250	511	-	1	103
Net realized gains (losses) on other financial instruments	(962)	(363)	-	(599)	-	-	-
Net revenue (loss)	**238,533**	**219,016**	**13,797**	**47**	**4,118**	**1,452**	**103**
Provision for credit losses	(17,406)	(17,406)	-	-	-	-	-
Net change in unrealized appreciation (depreciation) of investments	5,945	-	(3,952)	10,760	-	(3)	(860)
Net unrealized foreign exchange gains (losses) on investments	(6,175)	-	-	(6,175)	-	-	-
Net unrealized gains (losses) on other financial instruments	5,206	(360)	-	5,566	-	-	-
Income (loss) before operating and administrative expenses	**226,103**	**201,250**	**9,845**	**10,198**	**4,118**	**1,449**	**(757)**
Salaries and benefits	72,027	56,320	5,584	3,675	5,930	349	169
Premises and equipment	10,651	9,335	339	409	534	19	15
Other expenses	21,654	16,713	690	1,102	3,027	73	49
Operating and administrative expenses	**104,332**	**82,368**	**6,613**	**5,186**	**9,491**	**441**	**233**
Net income (loss)	**121,771**	**118,882**	**3,232**	**5,012**	**(5,373)**	**1,008**	**(990)**
Net income (loss) attributable to:							
BDC's shareholder	121,419	118,882	2,742	5,150	(5,373)	1,008	(990)
Non-controlling interests	352	-	490	(138)	-	-	-
Net income (loss)	**121,771**	**118,882**	**3,232**	**5,012**	**(5,373)**	**1,008**	**(990)**
Business segment portfolio at end of period	**18,848,556**	**17,383,265**	**573,794**	**527,354**	**-**	**359,269**	**4,874**

(unaudited, in thousands of Canadian dollars)

14. GUARANTEES

BDC issues “letters of credit and loan 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. The maximum amount payable under the guarantees totalled $52.3 million as at June 30, 2015 ($31.7 million as at March 31, 2015).

15. COMMITMENTS

Loans

Undisbursed amounts of authorized loans were $2,396,129 as at June 30, 2015 ($534,365 fixed rate; $1,861,764 floating rate) and are expected to be disbursed within the next 12 months. The weighted average effective interest rate was 4.63% on loan commitments (4.62% as at March 31, 2015). The following tables present undisbursed amounts of authorized loans, by location and industry.

Commitments, by geographic distribution	June 30, 2015	March 31, 2015
Newfoundland and Labrador	**66,732**	88,431
Prince Edward Island	**715**	525
Nova Scotia	**71,140**	55,930
New Brunswick	**26,757**	22,499
Quebec	**564,394**	545,479
Ontario	**689,677**	643,218
Manitoba	**76,668**	67,579
Saskatchewan	**71,816**	66,173
Alberta	**589,981**	568,549
British Columbia	**235,298**	193,659
Yukon	**2,913**	2,172
Northwest Territories and Nunavut	**38**	1,026
Total	**2,396,129**	2,255,240

Commitments, by industry sector	June 30, 2015	March 31, 2015
Manufacturing	**601,582**	519,240
Tourism	**345,794**	322,222
Wholesale and retail trade	**314,463**	319,899
Construction	**284,030**	247,874
Service industries	**249,024**	248,614
Resources	**236,580**	254,214
Transportation and storage	**141,078**	91,765
Commercial properties	**97,367**	103,386
Other	**126,211**	148,026
Total	**2,396,129**	2,255,240

(unaudited, in thousands of Canadian dollars)

Subordinate financing

Undisbursed amounts of authorized subordinate financing investments were $62,099 as at June 30, 2015 ($22,910 fixed rate; $39,189 floating rate) and are expected to be disbursed within the next 12 months. The weighted average effective interest rate (excluding non-interest returns) was 8.78% on investment commitments (9.87% as at March 31, 2015). The following tables present undisbursed amounts of authorized investments, by location and industry.

Commitments, by geographic distribution	**June 30, 2015**	March 31, 2015
Newfoundland and Labrador	**223**	255
Nova Scotia	**1,575**	-
New Brunswick	**1,500**	-
Quebec	**22,605**	23,570
Ontario	**27,651**	32,556
Saskatchewan	**4,400**	4,400
Alberta	**3,240**	2,650
British Columbia	**905**	4,230
Total	**62,099**	67,661

Commitments, by industry sector	**June 30, 2015**	March 31, 2015
Manufacturing	**22,388**	19,350
Service industries	**6,416**	16,288
Wholesale and retail trade	**18,445**	9,832
Resources	**4,390**	4,800
Construction	**4,130**	4,780
Information industries	**3,275**	4,061
Transportation and storage	**300**	300
Real estate and rental and leasing	**205**	-
Other	**2,550**	8,250
Total	**62,099**	67,661

Venture capital

Undisbursed amounts of authorized venture capital investments were $338,583 as at June 30, 2015, and were related to the following industry sectors.

Industry sector	**June 30, 2015**	March 31, 2015
Biotechnology and pharmacology	**12,795**	3,671
Electronics	**4,159**	1,205
Medical and health	**4,000**	7,000
Information technology	**2,049**	3,750
Industrial	**500**	1,000
Total direct investments	**23,503**	16,626
External funds	**315,080**	320,456
Venture capital investments	**338,583**	337,082

Venture capital action plan

Undisbursed amounts of authorized venture capital action plan investments were $263,915 as at June 30, 2015 ($272,979 as at March 31, 2015).

Asset-backed securities

The undisbursed amount of authorized asset-backed securities was $299,483 as at June 30, 2015 ($227,000 as at March 31, 2015).

Leases

BDC has future minimum lease commitments under operating leases related to the rental of premises.

16. RELATED PARTY TRANSACTIONS

As at June 30, 2015, BDC had $15,521.0 million outstanding in short-term notes and $224.0 million outstanding in long-term notes (excluding accrued interest) with Her Majesty the Queen in Right of Canada acting through the Minister of Finance ($15,432.0 million in short-term notes and $243.7 million in long-term notes as at March 31, 2015).

Accrued interest on borrowings included $4.0 million payable to the Minister of Finance as at June 30, 2015 ($3.9 million as at March 31, 2015).

BDC recorded $23.4 million in interest expense, related to the borrowings from the Minister of Finance, for the first quarter. Last year's comparative figure for the same period was $32.3 million.

In addition, no borrowings with the Minister of Finance were repurchased in the first three months of fiscal 2016 (borrowings with the Minister of Finance repurchased resulted in a net realized loss of $0.5 million for the same period last year).

BDC is also related to all Government of Canada-created departments, agencies and Crown corporations. BDC enters into transactions with these entities in the normal course of business, under terms and conditions similar to those that apply to unrelated parties.

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